



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# FINANCE COMMITTEE

Monday 18 January 2016

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**FINANCE COMMITTEE**

**3<sup>rd</sup> Meeting 2016, Session 4**

**CONVENER**

\*Kenneth Gibson (Cunninghame North) (SNP)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

\*Jackie Baillie (Dumbarton) (Lab)

\*Gavin Brown (Lothian) (Con)

\*Mark McDonald (Aberdeen Donside) (SNP)

\*Jean Urquhart (Highlands and Islands) (Ind)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Peter Reekie (Scottish Futures Trust)

John Swinney (Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy)

Barry White (Scottish Futures Trust)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Festival Theatre, Pitlochry



## Scottish Parliament

### Finance Committee

Monday 18 January 2016

*[The Convener opened the meeting at 11:45]*

### Decision on Taking Business in Private

**The Convener (Kenneth Gibson):** Good morning and welcome to the Finance Committee's third meeting in 2016. We are delighted to be here in Pitlochry and I thank Kristella Farrar-Ogilvie and everyone else at the Festival theatre for hosting today's meeting. I remind everyone present to turn off any mobile phones or other electronic devices.

The first item on the agenda is a decision on whether to take item 5 in private at this meeting and whether to consider our report on the draft budget 2016-17 in private at our next meeting. Do members agree to take those items in private?

**Members indicated agreement.**

## Draft Budget 2016-17

11:47

**The Convener:** The purpose of today's meeting is to continue the committee's examination of the Scottish Government's draft budget 2016-17. Our workshop sessions this morning sought to explore the impact of the Government's spending decisions on local communities and, in particular, how the draft budget relates to issues such as agriculture, tourism, flood prevention, transport and broadband provision. Under agenda item 2, members will report back on those issues. I invite one representative from each of the two groups to speak, and other MSP colleagues will be able to contribute to the discussion. First, the deputy convener will tell us what happened in group 1.

**John Mason (Glasgow Shettleston) (SNP):** We had a good time at our workshop and I am grateful to all the people who took part in it, including Jackie Baillie MSP, Jean Urquhart MSP and local representatives. I thought that an hour and a half would be too long but we filled the time easily; in fact, some of the items towards the end got squeezed a little bit. For the first hour or so, we spent time on broadband, farming and flooding, so I will touch on those issues.

Most of the group's members were unhappy with the situation with broadband. We heard about the community broadband partnership and that 18,500 people live in highland Perthshire. We heard about some of the practical problems, for example for farmers when they try to complete quite complex forms online with poor broadband availability. We also heard that state aid rules have prevented the local partnership from doing more because it has reached certain limits and cannot reapply for three years. There is a feeling that the Scottish Government or the United Kingdom Government should work with and put pressure on BT. The fact that BT changes its plans regularly makes it more difficult for the community to take up the slack. We heard about a coffee company that had been forced to move out of its site in Glen Lyon because of lack of broadband; the issue has even impacted on the local school.

We then looked at farming and the issue of the subsidy system. A lot of that was new to me, as I do not represent a farming constituency. We discussed the timing of payments and the desire for a commitment to a fixed date on which 90 per cent would get 90 per cent of their grants. The timing of payments means that farmers are starting this year with borrowing; traditionally, that did not happen. There had been a difficult summer and crop prices were low. We talked about the LEADER scheme and European money.

That moved us on to flooding, which has obviously had a big impact on farmers, too. We talked about the fact that the railway was closed when an embankment was washed away. It became clear that there is both a regulatory issue and a finance issue. There is a lot of hope for a strategy to deal with flooding. I think that members will raise with John Swinney this afternoon the need for a strategy so that the issue is not considered only in local pockets. There is the issue of Scottish Environment Protection Agency restrictions. The issue about rivers not being dredged and river beds rising, which could cause more flooding, seemed to be mainly regulatory. More on the finance side, perhaps, was the fact that the Forestry Commission seems to be doing less maintenance, certainly when trees and so on fall into burns. We touched on the issue of SSE operating the dams and whether it has a remit to control flooding.

We spent less time on the other areas that we went on to, which included community empowerment. However, the community empowerment model is quite impressive in that 10 community councils work together very much, although they have very limited funding of about £9,000 at the moment. Various ideas were suggested, such as whether they could take on more responsibilities, even from the council, and perhaps get funding to go with that. I think that that sometimes happens with parish councils in England. It was suggested that because community trusts often attract people to them because they have a bit of power, perhaps they should be more democratic. However, the chicken-and-egg question was whether more people would become involved in community councils if they were given more powers or whether more people would have to be involved first to give community councils the ability to deal with more funding.

We touched briefly on various issues around the lack of housing, which is sometimes about the lack of land and sometimes about severe planning restrictions. Again, there were practical examples, such as the fact that the theatre staff level is quite high over the summer and the theatre has to lease local properties to house the staff, otherwise it would be very difficult for them. People on low incomes are finding it very difficult to get housing in a number of places, including Pitlochry.

On tourism, we heard in particular about the theatre in Pitlochry, which has a turnover of £4 million and 110,000 people a year coming to it. In particular, there are questions over Creative Scotland funding; we will probably raise that with John Swinney, too. It is extremely difficult for the theatre to handle a major capital project, such as reroofing. However, the theatre is very integrated with local hotels and restaurants.

Finally, we touched briefly on transport, and people were very positive about the A9 being dualled. However, there are practical problems, such as how the road gets round Dunkeld and whether there could be an impact on the local community at junctions coming into Pitlochry. There is the idea of a community rail partnership and the view that Abellio has to be held to account for the commitments that it made in the tender process.

I think that those were the main points.

**The Convener:** Thank you very much for that. Jean, do you have anything to add?

**Jean Urquhart (Highlands and Islands) (Ind):** Yes, particularly on the flooding. John Mason mentioned that the issue was not completely a local one, but it seems to me that there is a lot of local knowledge around flooding. One of the issues that came up is the role of SEPA. We should highlight that local groups often ask SEPA for advice but are told that they have to get an expert report before SEPA gets involved. However, in the days of the old water boards, people would go to them for their expert advice as they believed that those organisations could give it. There seems to be a bit of an issue in that regard now with SEPA. I do not know where the funds would come from for local people to commission the kind of expert report to which SEPA has referred.

From what people were saying, it seems to me that there has to be a local strategy for flooding. There were good ideas from around our table that came from knowledge of work that used to be done but is not done now. It seems to me that any national strategy would need to have that kind of local input if we are going to deal with the flooding issue.

On the issue of broadband, I think that there is a real piece of work for us to do regarding the link between the work that BT has been paid to do by the Scottish Government and the United Kingdom and how community broadband Scotland fits in with that. The issue is whether we can expect wholesale broadband coverage and what the timescale for that would be. We are losing people from some areas as a result of the lack of broadband coverage.

Finally, on the theatre, as cuts start to impact, Creative Scotland is more inclined to revenue fund than to have a budget for capital, particularly for capital repairs. The Big Lottery Fund is keen to fund big and shiny, exciting new projects that it can hang a hook on, but is maybe not so keen on funding to repair roofs. That is a serious issue that I think we should look at.

**The Convener:** Thank you, Jean. Jackie?

**Jackie Baillie (Dumbarton) (Lab):** Needless to say, my colleagues have covered most of what needs to be covered, but I just want to emphasise a couple of issues.

First, I was struck by people's frustration at the lack of broadband. The problem is common to many areas of Scotland, but I also want to emphasise Jean Urquhart's comments and point out that some places do not have 3G, never mind 4G. We absolutely need to meet this telecommunications challenge. I can see people's frustration; they see the cabinet at the end of the street, but they are not connected to it and no one has a clue how long it will be before they are. Moreover, when they are connected, the broadband speeds are interesting, to say the least, and substantially lower than those that are available from community-based broadband schemes. Clearly there is a lot of work to do in that respect, not just because of the frustration for individual residents but because the local economy might be losing out. If broadband is to be our window on the world—which it is—and if people are increasingly using that medium to grow their business and export things, we will really lose out in terms of economic benefit if it is not up to speed across the whole nation.

We cannot escape having to comment on flooding. My area has experienced flooding in the past, and a lot of people with local knowledge there have pointed out what the people here pointed out, which is that river beds used to be dredged, farmers used to take out gravel and such practices seemed to have stopped. Whether or not that is a result of Scottish Environment Protection Agency regulation, the reality is that it is not happening, and although it has been recognised that some of the flooding was unavoidable, a lot of people have suggested that things could have been done to mitigate some of it and that, had we done that preventative work, some of the extensive damage that was caused might not have been so serious. The question whether we can encourage such preventative work gives us, I think, food for thought.

**The Convener:** Thank you very much for that, Jackie, and I thank colleagues who participated in group 1.

We move swiftly on to Gavin Brown, who will talk about group 2.

**Gavin Brown (Lothian) (Con):** I, too, thank everyone in the group—they made a massive contribution—and my colleagues Mark McDonald, and Ross Burnside from the Scottish Parliament information centre.

It is difficult in the couple of minutes that we have to do justice to what was a wide-ranging discussion. However, issue number 1 was

broadband. It took up the most airtime, and it does not surprise me to hear that the situation was similar in the other group. Frustration was expressed about the time taken to progress certain projects; for example, we heard of a project that has taken six years to come to fruition. As we know, technology moves on to a remarkable degree in a six-year period. There was also frustration about the extent of coverage and the speed of broadband. Indeed, some businesses and some parts of Pitlochry would be as well not to go online between 5 o'clock and 7 o'clock because of the dramatic drop in speeds.

If broadband was the biggest issue that took up the most time, the second largest was tourism. Clearly, tourism is critical to this part of Scotland, which has a very proud record in that respect; it certainly plays a key role in the local economy. However, the challenge for the people in Pitlochry and the wider area is to try to move as close as they can to year-round tourism; it cannot be seen as a summer experience, because what does the area do for the rest of the year and how does it attract good people to come and make a career in tourism? Some big moves have been made with the enchanted forest, and the theatre was given particular praise for putting on shows later in the year than had previously been the case, but there is still a challenge to meet. Through VisitScotland we are pretty good at getting people into Scotland, but we are less good at getting those tourists to spread their nets widely across the country. The Pitlochry partnership is doing what it can, and I encourage people to look at [www.pitlochry.org](http://www.pitlochry.org).

The issue of the A9 also came up in the discussion, and the comments that were made were similar to those that were made in the other group. Improving the A9 is seen as a huge boost to the area in the medium to long term, but in the short term it has to be managed extremely carefully. There were genuine concerns about congestion, which round here can have a pretty detrimental impact on tourism. We therefore need to be very careful about how the situation is managed.

A number of members talked about infrastructure with regard to buildings. There was a sense that in Pitlochry—and in Perth, too—the fabric of too many buildings, both houses and businesses, was not being retained effectively, particularly from an external point of view. Given that 2017 will be the year of architecture, it seems like a good time to encourage people to take their responsibilities in that respect more seriously.

There were also calls for VAT to be reduced—obviously, that is at a UK level. Could a grant scheme be set up to try to encourage people in the short term? Mark McDonald will no doubt

touch on that. He had some particularly good ideas that relate to that.

12:00

The issue of community transport was raised, and an example was given. In the voluntary sector in particular, if a patient lives in Kinloch Rannoch and has a 9 o'clock appointment in Ninewells hospital, the chances of their getting there at 9 o'clock are pretty slim, unless they own a car. Things have progressed with the demand-led transport system that is being set up, but demand way outstrips supply, of course, and there are issues that need to be resolved.

Obviously, flooding was discussed at great length. I echo the frustrations that came through in the other group. A far better national approach is needed. There was a feeling among the group that there simply has not been action and implementation on the ground following lots of wide-ranging discussions.

I will close on a positive note. I was hugely impressed by the highland Perthshire defibrillator locator project, which has been driven by Pitlochry high school. It has created an app with help from Highland Perthshire Communities Partnership and the Friends of Pitlochry Community Hospital so that, basically, people can know where every defibrillator in the highland Perthshire area is located. People can download the app to their phone, and if there is ever any problem, they will know exactly where the defibrillators are located. That is a really impressive project, and I think that it has potential national scope once all the bugs are tested. I am excited to see what can be done with it.

It was fascinating to listen to the entire discussion.

**Mark McDonald (Aberdeen Donside) (SNP):** Gavin Brown has covered most of the areas that we spoke about and has done all the product placement, as well. What he said was good from that perspective.

We heard a number of good examples of local work that is being done. As Gavin Brown highlighted, there was a very interesting discussion about the condition of buildings. Since I was a vice-convenor of housing at a local authority level, I have always had an interest in private sector dilapidations and how we deal with them. Local authorities have a budget for private sector housing grants, for example, but that is not substantial and it would not cover the scale of the issues that a lot of communities face.

Housing that was bought under the right to buy will be a real challenge in the not-too-distant future. Individuals were able to get very cheap

mortgages because of the discounts that were afforded, but they do not have the equity to be able to maintain the properties. They do not have any access to capital to be able to maintain and repair the properties, so real problems and challenges are coming. We need to have a discussion about what support mechanisms can be put in place to ensure that those buildings are safe and to improve their energy efficiency. The consequence of the approach is first and foremost a safety issue, but the loss of energy from those buildings and the obvious costs that are associated with that for those who own and operate them are also issues.

One member of our group referred in the discussion to the issue of absentee landlords. What stake do those who own commercial properties and lease them out but who do not live locally in the community have in the community? What opportunity is there for the community to benefit from the investment of those people rather than just individuals benefiting from it, particularly in ensuring that those buildings are maintained? If a person is not local to the community and does not have that stake in it, what incentive is there for them to ensure that the property is kept well maintained?

I am not entirely sure how another interesting issue that we covered could be taken forward. However, the issue of the impact of a number of hotel and restaurant booking websites and the difficulties that are often faced by some of the smaller operators in the market is fascinating. Those websites often command a fee for listing the business; in essence, they drive a bargain that ensures that the discounts that are offered are all borne by the owners of the hotels or restaurants. There is a question about what the benefit is for them, other than the fact that they need to be on those websites in order to get the necessary exposure. So much business now comes through people accessing those websites that, if someone is not on the websites and their local competitors are, they will not be at the races when it comes to people making bookings.

There is then a question about the impact that that has on the local economy. Obviously, if it is impacting on the ability of those businesses to turn over a reasonable profit, that impacts on the number of staff that they can employ and how much they can reinvest in the business, which then has a cyclical impact.

There was general agreement around the table that the A9 work was welcome and will be of benefit in the future, but there is a question about what impact there will be on the local community and businesses during the construction period, and whether any disruption will be caused. There

may need to be a discussion about that and how it might potentially be mitigated.

That is perhaps not needed here and now, but as the project moves forward it is something that the Government and local authority need to be cognisant of, to ensure that in the short term, while the improvements are being made to the road, businesses are not losing out significantly. Some businesses could go to the wall. The full benefit from the dualling of the A9 will not be realised if there is a detrimental impact on local businesses, as some of those businesses might not recover to see that benefit.

**The Convener:** Thank you very much, and thank you to all who participated in this morning's workshops. We have a fairly comprehensive set of issues, a number of which we will want to put to the Cabinet Secretary for Finance, Constitution and Economy this afternoon.

We will have lunch now and resume at 1 o'clock. Those who participated in the workshops are welcome not only to come to lunch, but to attend the sessions this afternoon to hear the committee put some of its questions to the cabinet secretary. Before that, we will have the Scottish Futures Trust, which will be another interesting session. We hope to have John Swinney here at about 2 o'clock.

12:08

*Meeting suspended.*

13:00

*On resuming—*

**The Convener:** I reconvene the meeting and remind everyone to keep all mobile phones and other electronic devices switched off. The third item on our agenda is to take evidence on the draft budget from the Scottish Futures Trust. Members have received copies of a submission from the SFT along with a summary of responses to our call for evidence on the SFT, which was issued in the autumn. I welcome Barry White and Peter Reekie once again to our committee. I invite Mr White to make a short opening statement.

**Barry White (Scottish Futures Trust):** Good afternoon and thank you very much for the opportunity to be here in Pitlochry. Before I start on my opening statement, I will make a declaration of interests: in addition to being chief executive of the SFT, I am the public interest director for the M8 special purpose company and for the Moray schools projects special purpose company, representing the public sector. I am also a trustee of LAR Housing Trust, the new housing charity. Peter Reekie has a couple of interests to declare as well.

**Peter Reekie (Scottish Futures Trust):** I am Barry White's alternate on the M8 special purpose company. I am a non-executive director of the International Project Finance Association, which is an international membership organisation that focuses on best practice and education in the project finance and infrastructure communities. I am also a trustee of the Hub Community Foundation charity.

**Barry White:** We have had a busy past year and there is a busy year ahead. The LAR Housing Trust has been set up, creating capacity for 3,000 homes and £365 million of investment. We see housing as a key activity in the years ahead.

We look forward to the Ofcom review of digital communications being published—we hope that that will happen next month. That is a set of initial findings from Ofcom, and our work with the Scottish Government on pushing forward the world-class 2020 strategy will be a key part of the work ahead. The review will have a big impact across Scotland because it is looking at things such as a universal service obligation that could be put in place for fixed broadband connections. It will also look at future licence conditions for mobile connectivity. For Scotland, it is an incredibly important review. Those initial findings will have to be responded to and we will be part of that response.

I will mention two highlights. Through the growth accelerator model, we have unlocked significant investment in Edinburgh city centre and we expect the demolition of the St James centre to start this year, which I think will be welcomed by residents of Edinburgh. That investment in the city centre is a great thing to see. Also, Lairdsland primary school, which is now open and up and running, has won design awards and we aim to build on that innovative and award-winning design to help continue to change how schools are designed and to help future learning within those schools.

To give just one example of local activity, our schools for the future programme is investing around £36 million in Perth and Kinross. Some of the schools have already been built and there are more to come.

I will make four brief points on the call for evidence that the committee issued in September, which was well summarised in the papers for this meeting. I took a great deal of pride in the wide range of organisations that responded—public and private, large and small, from environmental organisations to estate agents. The responses were positive in tone and there were some helpful suggestions, so the call for evidence has been helpful to us.

It is also helpful to the SFT team to have its skills and abilities acknowledged by the people it

works with. We value the collaboration with all the bits of the public and private sectors, and seeing our efforts come through strongly in the evidence is a great positive. I always think that there is further to go in collaboration. As the public sector, we must collaborate still more.

We have given written evidence on the non-profit-distributing and hub models, and we have updated the profile. The European system of accounts 2010—ESA10—has had an impact. We were particularly pleased to start the new year by reaching financial close on Ayr academy, which is the first of the projects that were paused because of ESA10. We look forward to reaching financial close on more hub design, build, finance and maintain projects in the forthcoming weeks, and other projects are to follow as quickly as possible.

As we look to the future, we face an interesting time on infrastructure investment. We have the implementation of the Smith commission recommendations, the potential onset of greater borrowing powers and what that will mean, and the more direct link between the Scottish economy and revenue for public spending. All those things mean that infrastructure investment is as important, if not even more important, than ever.

That concludes my opening remarks. Thank you very much for the opportunity to be here.

**The Convener:** Thank you very much. You have been to the committee on a number of occasions, so you know that I will start by asking some opening questions and my colleagues will take it from there.

The SFT is reported to have made a total of £777 million savings and benefits for the people of Scotland. I must say that, in the five years that I have been convener of the Finance Committee, I do not think that I have ever seen such an effusive set of responses to our call for evidence in support of an organisation. Committee paper FI/S4/16/3/1 says:

“The overwhelming majority of the responses are positive and indicate a high regard for the work of SFT ... staff are mentioned positively throughout the written responses and they appear highly regarded by stakeholders. Their helpfulness, expertise, and willingness to work with other sectors collaboratively has been welcomed in the responses.”

For example, the Civil Engineering Contractors Association said that the SFT's role was instrumental in keeping many Scottish civil engineering companies in business and preventing far worse job losses during the recession; Homes for Scotland said that the SFT has clearly demonstrated an ability to foster innovation, encourage collaboration and deliver value for money to the public purse; and NHS Dumfries and Galloway said that the SFT specifically provided helpful engagement with

funders and ensured delivery of a funding solution through the NPD scheme.

A lot of people out there are singing your praises. I could mention others, but I will not do that for the moment, because we must look at those areas where there is still room for improvement. You would obviously welcome that, too.

Aberdeenshire Council, which has been supportive, said that there was some disquiet around the value-for-money aspects of some areas of one of its projects. It considered that there may be merit in a public sector comparator test to demonstrate value for money. Likewise, Angus Council expressed the view that, in relation to the hub companies' tier 1 contractors, added value could be derived if the SFT placed a greater emphasis on ensuring awareness of the benefits of having a strategic public sector work stream. Will you respond to those points?

**Barry White:** Public sector comparators were used historically in the days of the private finance initiative, but they became slightly discredited because people were positioning the answer to come up with the response that was needed to justify the course of action. I do not think that the history of public sector comparators shows that they have been helpful. It is not as if there was a genuine option to do something else. With public sector comparators, the question used to be, “Do you want to do PFI, or do you want to do it through capital spending?” However, if there was no capital, people knew that they had to prepare the public sector comparator in a way that gave the PFI route as the answer. From that point of view, the comparators were never that helpful, because of the circumstances.

In launching its investment programme, the Government acknowledged that it was doing that in times of austerity to supplement the capital budget. It was not as if there was a choice to do anything else—there were no borrowing powers that would enable anything else to be done. In the independent budget review in 2010, we recommended that the Government use all the levers available to it to allow investment to happen.

To answer your question, yes, we could use public sector comparators, but I am not sure that they would be of huge value. In some ways, that would be looking back to historical practice.

On the remarks of Angus Council in relation to the hub, the strategic relationship that exists is one that the public sector and the private sector have to work at. We should be working together with Angus Council to secure that. It is not necessarily the job of the SFT to secure that strategic relationship; it is a joint responsibility. We are firm

with people in our position that it is Angus Council's hub company as much as it is the SFT's. There is a shared responsibility. We will work with Angus Council and others in that regard.

**The Convener:** Morrison Construction suggests that your approach has worked well in the current market but raises a concern that, in a rising market, affordability and value for money will become a different challenge. That view is supported by Kier Construction, which suggests that, as the market recovers, the SFT should conduct a review to ensure that best value continues to be obtained while retaining the attractiveness of projects to ensure private sector investment. Is that something that you are considering?

**Barry White:** We are always willing to look at things differently. Those comments were made because we have locked in attractive prices at a relatively low point in the market, which means that, within the hub, for instance, people are working on competitive margins. However, they have a long-term pipeline of work, so it works both ways. I can understand that companies would like higher margins, but I would say to them that, although the margins might be lower in the hub, there is a pipeline of work.

We are aware that, if any new projects are brought to market at a time when construction companies are busy, construction procurement must be an attractive process and not use up too much private sector resource. Public sector organisations have to be good procurers when the market is busy; otherwise they get less competition. In new projects, we must take that into account.

**Peter Reekie:** There is also going to have to be a change in emphasis in the market as a whole as the market turns the corner and there is an increased focus on the training and development of the workforce. I would say that the building blocks through the hub are well placed to help the industry face the challenges of moving from organisations that are searching for work to organisations that need to grow and develop their workforce in order to keep pace with what is happening in the industry.

**The Convener:** BAM Construction said that some participants in the hub frameworks are concerned over the closed nature of some of the hub supply chains. It appears that participants often have a limited choice of contractors, and BAM Construction feels that that could eventually damage the hub procurement model.

**Barry White:** I disagree with that. BAM has picked up a reasonable amount of work through the hub. The hub supply chain is not closed, as it can be revisited at various times throughout the

lifetime of the hub joint venture. There has been some changeover of contractors. Inevitably, if someone is in a framework relationship, those who are not in that relationship feel that they would like to be in on it. In some ways, therefore, that is not a surprising remark. However, the public sector benefits from that long-term relationship. We can see that Ayr academy got to financial close quickly recently through the hub design, build, finance and maintain process. That speed is one of the benefits of partnership working, as it allows people to collaborate in a way that delivers better value for the public sector.

13:15

**The Convener:** Another area of concern was raised by Reiach and Hall, which said about the bidding process:

"there is still a huge amount of wastage in the system."

It said that it has been involved with both NPD and hub projects and believes that there is a "marked difference" between the two and that, as a result, there is little appetite for bidding for future NPD projects under the current model.

**Barry White:** First, Reiach and Hall is a tremendous firm of architects. The City of Glasgow College buildings that it has designed for the Riverside campus, which is now open, and the city centre campus are wonderfully designed buildings that have won a design award already. If you are ever in Glasgow city centre, the Riverside campus is worth a visit because it is a wonderfully designed building, and seeing young students in there, many of whom come from overseas, is fabulous.

In its longer evidence, Reiach and Hall also said that the current process is much improved over previous processes, but it still sees waste in it. We had long discussions with Reiach and Hall after it gave its evidence to ask how we can improve on that. For example, the company is working on the Forth Valley College project, which is part of the next stage of NPD, and it will work that design up at a certain stage and put great design into that college at an early stage. We are looking at ways of improving the process, and that improvement has already been made in hub because construction contractors and designers work on a one-to-one basis with the public sector client.

There is a balance to be struck when we are competing for NPD projects. The construction contractors always say that they need to manage the designers so that they can make sure that value is engineered into the building, and designers always say that they need to manage contractors to make sure that their flair is designed into the building. There is a happy medium and the two can work together incredibly well as a

combination. The balance needs to be struck between construction input and design input into the competitive process.

Reiach and Hall has acknowledged that improvements have been made, but we will look at whether further improvements can be made.

**The Convener:** You have almost pre-empted my next question, which is about that dialogue and discussion. Reiach and Hall says:

“it is ‘against the rules’ for the client to contribute ideas during dialogue discussions. This makes a ‘normal’ design conversation impossible”.

Is that the case? Other people have praised the SFT for being innovative, but Reiach and Hall suggests that it is concerned because “dialogue is very inhibited”.

**Barry White:** I do not agree with that comment. There is room for dialogue and discussion of design. I would judge the situation by the outcomes. Inverness College UHI, which is now open and running, is a wonderfully designed building. The buildings that have been opened are really well designed and fantastic, so the outcomes show that we are getting well-designed buildings.

If we look back at historical PFI projects, we can see that the standard of design that we are now getting is considerably better because we put a huge effort into doing reference designs up front, and we get the public sector to think through how it wants the building to work. As a result of that, we are getting better buildings.

**Peter Reekie:** As we set up major procurements, we spend a lot of time thinking about the interaction of a procurement process that has to go through open competition and has to be run commercially, and the design process, which is happening in parallel. It is tricky to get the interaction between stages of design development and the stages of procurement right, and not everyone will think that it is right in every case. In fact, it is almost necessarily the case that, if the architects like a particular process, the contractors will think that it is taking something away from their ability to influence.

One of the other pieces of work that we are involved in in the construction and procurement review is about upskilling public sector procurers, because they will have the design discussions as the procurement progresses. The skill of the procurers is important in getting the best from that inherent tension.

**The Convener:** On fees, Jmarchitects has highlighted a concern that, despite guidance from the Scottish Futures Trust, there is

“little consistency across the hub programme.”

It gave the example that it

“has been working for more than two years on a large healthcare project with no fees forthcoming”,

which it believes is unacceptable. What is the situation with regard to fees?

**Peter Reekie:** It is an area that we put quite a lot of focus on as hubs developed. Initially, we expected that, in the tendering, the bigger organisations—the main contractors—would take on some of the cash-flow risks associated with the early stages of design development through the hub process.

We found out, through feedback from architects and other bodies, that the big tier 1 contractors were pushing more of the cash flowing of costs down their supply chains and into smaller design organisations than we would have liked or had anticipated. We have changed the guidance and the way that the hub development process works, so that the designers can be paid on an on-going basis as hub projects are developed, rather than having to take that as a fee at the end of the development process. It is an area in which we recognised that we had to do more work. We have changed the way in which that is working, and if that continues to be a feature of feedback that anyone hears from the design community, we would like to hear about it, because that should not be the case any more.

**The Convener:** That is very helpful. I have one final point before I open out the session to colleagues. You will not be surprised by this question, because I ask it every year.

For 2015-16, your estimate for the capital investment programme has been reduced from £954 million to £787 million. You will know yourselves that it seems that every year the estimate for one year is reduced the following year. The reductions have been of more significance in some years than in others, and next year you will say that the 2016-17 capital programme will be £909 million.

As I said, I have asked you this question a number of times over the years. There seems to be an optimism bias in what you are doing—there has never once been a year in which you have said that you will spend, say, £600 million and it turns out to be £800 million. Every single year there seems to be a reduction in the amount of money that is actually invested as opposed to what you say will be invested.

What can you do to bring your estimates more into line with what is actually happening? There seems to be a wee bit too much wishful thinking. Although the gap is less than it was before, it is still a fairly substantial £167 million reduction on what was suggested last year.

**Barry White:** There are two reasons for the reduction from £954 million to £787 million in the 2015-16 figures that you gave.

The first is that whenever we model what the cash flow is going to be, we use a fairly standard S-curve that is a generalisation. The S-curve is the graph of spend; it starts off and spending then accelerates—that is why it is called an S-curve. Within the construction industry there is an assumed standard shape of that curve. What we do at the financial close of a project is to replace the standard curve with the actual S-curve that the contractor has put into the financial model.

If the contractor has taken a slightly different approach, such as deciding not to work so much during one winter and more the following winter—there is a whole series of things that people can choose to do to be competitive—replacing the curve has an impact, because we go from an assumed S-curve to an actual S-curve. That is one of the reasons why the 2015-16 estimate has gone down.

However, the biggest reason for the reduction in 2015-16 has been the European system of accounts 2010. A dozen hub design, build, finance and maintain projects had to be paused from the start of the year, as they were getting ready to go to financial close, until they got the clearance to move forward. That is the reason why movement has been quite so big in certain areas, such as—

**The Convener:** I would understand if this was the first time that you had come to the Finance Committee with such figures, but every year we get the same issue—that is my concern. If it was a one-off we would say, “Well, that’s fair enough.” However, I asked you the same question last year, and I am pretty sure I asked it the year before and the year before that.

My concern is that there is a level of optimism bias in your projections because the bias is always one way—it is always that you will spend X, but when we see the actual figures the following year they are always significantly less. As I said, the reduction last year was not as much as in previous years, but the difference was still significant. That is of concern, certainly to me and I am sure to colleagues round the table.

**Barry White:** This year, the European system of accounts 2010 has had a very big impact—that is a different reason and a new factor in comparison with previous years. We now know that there is a way ahead with hub design, build, finance and maintain projects; we did not want to hold up financial close on those projects, but we had to work through the new ESA10 approach and send the matter to the Office for National Statistics before we had the green light to go ahead. Having been given that go-ahead, we have now pushed

ahead. As I said, the set of circumstances this year has been quite different.

However, we have always made it very clear that what we are talking about is not a budget in the traditional sense. There is no pot of cash sitting waiting to be spent; instead, the money follows the projects. As a result, spend depends on project progress, and having to pause 12 projects because of the ESA10 issue will have a big and unexpected effect.

**The Convener:** I understand the issue with the 10 schools and two health centres, but this is a matter that seems to come up annually.

I will not ask any further questions, because I want to give colleagues the opportunity to ask their questions. I call Gavin Brown, to be followed by Jackie Baillie.

**Gavin Brown:** First of all, I reiterate the convener’s comment at the start of the session and say that I, too, was struck by the positive tone of the responses to our consultation.

I want to start where the convener left off, because I understand the ESA10 issue entirely. Well, I say “entirely”—I do not think that anyone understands it entirely, but I understand how it has held things up.

As has been mentioned, the overall projection for 2015-16 was £954 million, and it looks like the actual figure will be £787 million. Most of that can, I think, be explained by ESA10, but I want to go through the four largest individual changes to ensure that they are all down to that factor. First, the schools element of the budget appears to be down by about £170 million for 2015-16. Is all or most of that £170 million down to ESA10, or are there other factors in there?

**Peter Reekie:** It will always be a combination of factors that leads to a change in numbers.

**Gavin Brown:** Sure.

**Peter Reekie:** In this instance, the impact of ESA10 will overlay a number of project-specific issues as time goes by. However, we are not in a position to look through all of that and say, “Well, if this issue hadn’t arrived, would any other issues have come up?” As Barry White said, ESA10 has held up 10 of the schools projects—it led to quite significant delays on the projects throughout the year.

**Gavin Brown:** Is it not possible to put numbers on that? Are you able to tell us that, say, £150 million of the £170 million is down to the effect of ESA10 on those 10 schools, or are you simply not able to go that far?

**Peter Reekie:** We have not looked at how much, if any, of the change in timescales for each project was down to ESA10 and how much of a

delay might have happened had ESA10 not been a factor. In areas where different reasons overlap, we have not needed to go into the question of which bears prime responsibility. Instead, as an organisation, we are focused on getting those issues resolved to ensure that those projects can go ahead, and that is what we have been doing with our local authority and hub-co partners to ensure that they can go ahead as soon as possible.

**Gavin Brown:** Let us move away from schools, then. I am not sure, but it might be easier to answer my questions with regard to other projects. The budget for the Edinburgh sick kids hospital project appears to be £60 million lower than planned for 2015-16. Is that down to ESA10 or something different?

**Peter Reekie:** The spend profile for that project has been unaffected by ESA10. As Barry White said, as far as that and a number of the other larger projects are concerned, the issue relates to contractors' profiles during construction—in other words, how they plan to do the works and profile construction activity through the phases of the project—compared with the more standard curve that we would have applied earlier.

**Gavin Brown:** That deals with the Edinburgh sick kids hospital project.

The "Community Health" line has gone down by about £55 million. Is that down to ESA10, profiling by contractors or both?

**Peter Reekie:** Most of that will be down to ESA10 and a number of specific factors in the smaller community healthcare projects through the year.

13:30

**Gavin Brown:** The figure for NHS Dumfries and Galloway is about £70 million or so lower. Is that down to ESA10 or profiling by contractors?

**Peter Reekie:** That project was not held up by ESA10 at all; it is more to do with contractors' profiling of their expenditure.

**Gavin Brown:** Thank you. That was helpful.

I would like to go back a year to 2014-15, the figures for which are included in the budget document. I will not go through all the various categories again, but the total for 2014-15 was meant to be £614 million although the outturn appears to be £538 million, so the figure is about £76 million lower than was planned. In your submission, you say that that was "principally" down to ESA10. Do you mean that most of that £76 million reduction is attributable to ESA10? Can you be more specific?

**Barry White:** We said that the differential was

"largely due to the AWPR financial close".

Again, the points about the difference between contractor spend profile and assumed spend profile as well as ESA10 apply.

In addition, as we get more detail on projects, we refine the model. We have been doing a group-based funding technique, which involves combining the funding streams for two projects, both of which start off as partly revenue funded, in such a way that one becomes capital funded and one becomes purely revenue funded. That is partly how we have addressed the point about capital contributions. That will be very helpful as we go forward with ESA10. The refining of that technique has contributed to the differential, too.

**Gavin Brown:** You have outlined your projections for 2016-17, which the convener touched on. As far as you can tell, are any of those projections at risk from future or existing ESA10 investigations?

**Barry White:** I would say that the majority of the lines for 2016-17 are now on contracted projects. The key areas for us are around schools and community health. Having unblocked the pipeline of hub design, build, finance and maintain projects in terms of ESA10, we have 12 projects, one of which has already reached financial close, and there are others coming down the tracks. Getting those projects through to construction is a critical part of securing that level of investment.

We are aware that Eurostat will update the ESA10 guidelines. The update of the "Manual on Government Deficit and Debt" is due to come out in late January or early February—it is hard to say for sure when it will come out. We do not believe that that will have a significant impact on hub design, build, finance and maintain projects, but until we see the final document, we cannot be certain. If Europe updates the rules, we will have to take those changes into account and move forward from there.

**Gavin Brown:** So there are no existing issues, but that could change in January, depending on what Eurostat comes out with.

**Barry White:** Yes.

**Gavin Brown:** In your submission, you say in relation to ESA10 that the ONS has offered the view that hub projects

"would be classified to the private sector."

I presume that that is the result that you wanted, and that it allows things to go ahead.

What sort of interaction did you have with the ONS? Was it willing to give you views off the record in order to speed things up? What was your relationship with ONS like?

**Peter Reekie:** The ONS has a policy of not giving guidance because it is a body that gives opinions on structures rather than one that helps people to achieve a particular outcome. There is, however, the opportunity to put forward a policy proposal to the ONS and, following the ruling on the Aberdeen western peripheral route over the summer, we developed and put to it a policy proposal as to how we could amend the hub, design, build, finance and maintain arrangements to reinforce private classification. We put that policy proposal to the ONS, we had a clarificatory discussion with it and it then provided a ruling on how it would classify that policy proposal. We have now taken projects forward and, as Barry White said, we have contracted the first project following the arrangements that we put to the ONS in a policy proposal.

**Gavin Brown:** That is helpful. Thank you.

You mentioned the AWPR, which was classified the other way, as a public project. Is there any on-going appeal process, discussion or dialogue, or should we just, for the purposes of the next few budgets, accept that we are stuck with that ruling? Are you in active dialogue with the ONS?

**Barry White:** On the AWPR, we have accepted that a rapid reversal will not be possible.

**Gavin Brown:** Did you say that it will be possible?

**Barry White:** Sorry—it will not be possible. That is because, with the update of the “Manual on Government Deficit and Debt” due to come out, we could not put a policy proposal to the ONS in the autumn of this year, have that considered by the ONS and then negotiate those changes with the contractors—we are dealing with signed contracts, which we would have to negotiate—and have them in place before the new manual came out. The timeline of events is that we will have to wait for the updated “Manual on Government Deficit and Debt” to come out, consider the options and look to see what we could put to the ONS. If there was an option that was acceptable to the ONS and the Scottish Government, we would then have to negotiate that with the private sector. A rapid reversal will not be possible because we are caught by that update of the “Manual on Government Deficit and Debt”.

**Gavin Brown:** That is helpful. Thank you.

**Jackie Baillie:** Unsurprisingly, I want to stick with ESA10. I accept that the changes were very difficult to manage for councils, health boards, yourselves and contractors, who were quite exercised by the stopping of work that they expected to proceed. I am glad that we have got through it, but I think that lessons need to be learned from what happened.

Given that ESA10 was launched in 2010, why were we so taken by surprise? Whose job was it to have some of the discussion in advance—yours or the Scottish Government’s? How did we get to a situation in which projects suddenly had to be stopped?

**Peter Reekie:** ESA10 is slightly badly named in that it came into force in September 2014. The “Manual on Government Deficit and Debt”, which is the technical guidance that sits underneath it, was issued in shadow form in November 2013. That version of the shadow guidance did not seem to raise any substantive issues for projects of the nature of those that we were carrying out. It was an update of that guidance, just before the standard came into force in September 2014, that really made the changes. Those changes can be seen in black and white, but it is also a matter of the way in which Eurostat and the statistical bodies around Europe interpret the guidelines. The rules came into force in September 2014, and we became aware of them through discussions with the Treasury in November, which kicked off a process of our gaining a detailed understanding of how they would be interpreted.

This issue has been played out across Europe. In a number of pretty substantial programmes of activity in Belgium, England and other jurisdictions, infrastructure investment projects have faced issues because they expected to be budgeted in a particular way. However, there was a change in the rules and interaction with Eurostat, as both the interpretation and the rules changed. That has caused a number of people across Europe to have difficulties with projects and programmes.

In Scotland, some projects were at a very critical stage when the rules changed, so for very good reasons this issue has, as you have said, probably become more high profile. The situation has impacted on a number of projects, building contractors and public authorities that were expecting to get new schools and hospitals. A change in the rules at a particular point in a procurement or project development causes substantial difficulties; if things had been stable all the way through the project development process, we could, as we have done with the hub, have come up with a structure that complied with the rules and took that all the way through. However, that has not been possible for the projects concerned.

**Jackie Baillie:** Other commentators would suggest that, although the rules were devised in 2010, people simply did not see the changes coming, but that is not an excuse that we can hide behind. I think that you have said that the first indication came in November 2013 but that it was not until November 2014 that you engaged in

discussions with ONS. Did you do anything before that?

**Peter Reekie:** The November 2013 “Manual on Government Deficit and Debt” did not contain the substantial changes to the guidance on control and reward sharing that were contained in the later guidance. A very detailed set of interpretations of the words in the 500-page guidance has affected the projects concerned. We spent a year discussing the interpretation of those words, but they emerged only in the August guidance that was published before the rules changed in September 2014. I agree with you that ESA10 has been discussed for a long time, but there has really been no change at the level of the law that is ESA10; change has come at the level of the guidance that sits below it and the interpretation of that guidance by the statistical authorities that write the rules and interpret them across Europe where the substantial changes have occurred.

**Jackie Baillie:** Did you take any external legal or professional advice on that?

**Barry White:** I note that in its written submission in response to the committee’s call for evidence, Allianz Global Investors, which is a very big investor of pension fund money in projects across Europe, said with regard to the Scottish Futures Trust:

“In this context we note that SFT, like many other European infrastructure procurement bodies, is now facing new unexpected challenges ... arising from Eurostat having changed the evaluation framework used for PPP classification”.

It also hopes that, with the €300 billion Juncker plan in Europe,

“SFT will receive the clarity it needs from the statisticians on a timely basis”.

The issue is therefore part of a much wider European one. Even in the UK, Network Rail, English housing associations and the UK Government’s financing aggregator model for schools have been reclassified as part of the public sector since ESA10 has come into effect. A lot has changed, but the change was brought in at the last moment in the guidance.

**Jackie Baillie:** Forgive me for pressing this, but, given that the area is clearly complex, did you take any external advice on it?

In addition, I do not think that you answered my earlier question about whether you or the Scottish Government should negotiate. Who is responsible for making decisions in this area?

**Barry White:** We have taken advice on classification at different times in the process. For example, we took advice on ESA95 when it was in operation, and advice was taken with regard to

some projects that were coming in during the run-up to ESA10. However, that was based on the older guidance. It was only when the new guidance emerged that we realised that the advisory market was not in the best position to give us advice.

We have therefore led the work with the ONS to get the hub up and running and get clarification, because we think that, as Allianz has made clear with regard to the situation across Europe, the advisory market has been caught slightly off guard by the significance of the change. As a result, our work of late has been led by us rather than by external advisers, and we believe that that is the right course of action, given that the in-depth knowledge that we have gained puts us ahead of what the advisory firms could have provided to us.

13:45

**Jackie Baillie:** To ensure that I do not misrepresent your position, you are saying that, for the reasons that you have outlined, no advice was taken.

**Barry White:** During the course of the non-profit-distributing programme, we took advice on particular projects at different times.

**Jackie Baillie:** Yes, but I am talking about ESA10.

**Barry White:** Some projects were assessed for ESA10 prior to its introduction, but those assessments were carried out under the old guidance, and ESA10 itself was introduced with new guidance. We have worked through the detail of that with the ONS. The AWPR project was submitted, and when its classification was clarified last July, we responded by putting to the ONS our policy proposal on the hub to allow that to be driven forward. It was the SFT rather than advisers that put the policy proposal together, because we had to immerse ourselves in the matter, and I would argue that as a result our level of knowledge is now greater than what the advisory community could have offered us.

**Jackie Baillie:** Okay, but is that your job or the job of the Scottish Government?

**Barry White:** It is probably a joint responsibility. At the end of the day, the Scottish Government along with the UK Government enforces the budget rules. That is just a practical issue, and it is the case practically.

As for responding to the change, we give advice to the Scottish Government, but it is the Scottish Government that makes decisions on the basis of that advice.

**Jackie Baillie:** As I am sure you will appreciate, the issue is so serious because the designation of

projects as public sector ones means that, instead of its being used in different financial models, more than £1 billion could now become part of the normal capital budget that the Scottish Government has to spend. The Aberdeen western peripheral route, which the Government is committed to, will now go on the books instead of being off balance sheet, and the same applies to all the projects that Gavin Brown mentioned. It applies to Dumfries and Galloway royal infirmary, the Royal hospital for sick kids and the Scottish National Blood Transfusion Service. Because all of those valuable projects will have to be paid for by capital budgets on the books, less will be available for other things.

**Barry White:** Yes.

**Jackie Baillie:** Okay.

I want to ask a question that supports the convener's earlier request. Saving £777 million is a wonderful achievement, but who audits that? Who can tell me whether that is real? There is something in the suggestion that you constantly compare your models with other models that are out there. They might not be local authority or public sector models, but in any case that sort of thing should form part of the challenge function that you should have. I would be interested in hearing further thoughts about how we unpick that £777 million and how we can get better at doing what we do.

**Barry White:** I am sorry, but I did not quite pick up the point about models.

**Jackie Baillie:** The convener suggested that you should maybe test your model against others. You suggested that such models would simply be local authority approaches or public sector models, but the fact is that there might well be other financing models out there. You have quite substantially increased private sector involvement, which means that it is putting in all the capital, and the unitary charge goes up for the public sector. We should probably be concerned about that, because collectively the amount of debt that the country bears is increasing substantially. I understand the reasons for that, but there might be other models out there that we should constantly be comparing what we do against in order to secure the best possible deal. What testing has there been of those alternative models?

**Barry White:** First, you asked about the benefits number. We provide our benefits figures to the London School of Economics and Political Science and Grant Thornton for validation, and on page 15 of committee paper 1, I have tried to give practical examples of the benefits and what the number actually means.

The number is important because it quantifies things. It is about building 67 schools on a budget for 55—that is a tangible demonstration of the work—and it is about the £365 million of housing, with £265 million of that coming from the national housing trust and £100 million through the new housing charity, the LAR Housing Trust. Those houses are being built and developed. If we are talking about benefits, I can tell you that on Friday I visited a housing estate and saw tenants moving in to their new flat. That flat would not have been there had we not provided that funding route. The benefits are real and tangible and are making a difference to people's lives.

Likewise, as I said in my opening statement, for projects such as the St James quarter development in Edinburgh, we count among our benefits part of the £61 million that Edinburgh will invest as additional investment that we have helped to unlock. We do not count the £850 million of private sector investment that that public sector investment will help to catalyse. As for how we capture the benefits, I would argue that our benefits are actually much greater than what we have set out. In our table, we have tried to highlight some of the wider benefits with regard to the tangible meaning of our work for people and its impact.

We might well have had a discussion about models in 2009, when Angus Grossart and I appeared in front of the committee. We are not wedded to any model; we really are ecumenical about what we do. If there is a better way to do things, we will do it. I think that in our evidence to the committee last year and in our evidence to the Smith commission, we said that it would be good if the Scottish Government had greater borrowing powers so that a choice could be made, and I very strongly believe that it would be better if we had that choice. I have to say that I do not know what borrowing powers the Scottish Government will end up with after the implementation of the Smith commission recommendations; some borrowing powers exist already, but having greater borrowing powers would be a helpful tool in the box.

We are very open minded to other approaches that might be out there. We started off with tax increment financing. As it developed, we moved in and tweaked it to unlock the growth accelerator model. Likewise, with national housing, we started off with the national housing trust and then moved to the national housing trust council variant; from that, the thinking behind LAR emerged. We are not wedded to one approach or model; we will do whatever works best and provides the best value for money. We are very open minded. We are not wedded to one approach at all.

**John Mason:** I will stick to that general area. If something such as the AWPR is reclassified to the

public sector, we as the public still end up paying exactly the same amount in cash terms. Is that correct? Whichever way it is classified, we are still paying for the same infrastructure and so on.

**Peter Reekie:** That is correct.

**John Mason:** So there is no cash impact. From what you just said to Jackie Baillie, the impact is that, because the project is being reallocated and because we have a fixed capital budget, that restricts the rest of the capital budget. In previous evidence to the committee, I think that you argued that that was a bit of an artificial limit and that, if we just had freedom to borrow, it would not matter so much.

**Barry White:** The effect of the item being on balance sheet is that its additionality is removed, so you are right that, in cash terms, it does not make a difference. If there were different opportunities beyond the capital budget, more choices could be made about how that was handled. However, the way in which things work at the moment, with the capital budget being restricted, is exactly as you have described.

**John Mason:** In my opinion, the limit is artificial. We used to talk about finance leases. When someone bought a photocopier, it was on either a finance lease or an operating lease. The split was totally artificial—it was just to keep the accountants happy that someone was either leasing or buying. In reality, exactly the same thing was being done in either case—you were still paying £100 a year or whatever it happened to be in cash terms.

It seems to me that the artificial limit on capital expenditure is the problem. You are probably the wrong person to ask about this; I should ask the finance secretary. It is an artificial limit and there is no logic to the capital budget being restricted as it is. Is that right?

**Barry White:** That is more a matter for—

**John Mason:** That is fair enough.

The fact that the investment estimate has fallen from £954 million to £787 million means, on the one hand, that projects are not happening quite as quickly as they might. On the other hand, I presume that our repayments are being delayed because, if a project starts a year later than scheduled, all the payments will be a year later. From a cash point of view, is that quite a positive thing?

**Barry White:** Your summary is right. A delay moves everything back, including when the payments start. It all moves back in time.

**John Mason:** Do you see a delay as being negative, positive or neutral?

**Barry White:** We would have liked the dozen projects that we had to pause because of ESA10 to have gone ahead as planned, because people's expectations would have been met. We have had to work hard with local authorities to explain why the delay was necessary and why we had to pause those projects.

The great thing is that those projects can now move forward. The pause was necessary because of ESA10. It was the right thing to do and we can now move forward at pace with that green light.

**John Mason:** It was a strange case because there was no benefit from the delay; it was just a technical or legal thing. I presume that other delays have a benefit, because you might pay a bit more if you had to settle today, whereas if you waited and carried on negotiations with contractors, the price might come down a bit. Is that right? Might a delay sometimes be a good thing?

**Barry White:** In previous evidence, we said that we know that, in the past, some public sector projects suffered if a deadline was met but people entered into a contract before they were ready. In a case such as that, false progress ends up being made, because the loose ends that are left behind come back to haunt you. We therefore say that it is better to sign the contract when it is ready to be signed and not to impose an artificial deadline, because that changes people's behaviour.

We are fully subscribed to getting the right deal drawn up as quickly as possible. ESA10 was a slightly different circumstance because it created a pause. In other projects, it is right to bottom out the project's specifics and tighten it up as a project before signing any contract. That is why, in the hub for instance, the outturn costs at the end of a project are very close to the contracted costs. In some projects, there may be a small change during the life of the project, but the outturn and the starting point are broadly in line. That is because up-front work is done to secure that rigour, so that the project is delivered within its budget.

**John Mason:** It strikes me that sometimes waiting is a good idea.

I will touch on the interesting case studies that are in your submission. The case study on page 26 is on the national housing trust and mentions a site in Rosyth. Will you give us more detail about that? You say that the site was suitable for 390 homes. I do not know whether the submission says exactly how many homes the national housing trust built, but it was not the full 390. How did that work? Why did the fact that the trust built some of the houses make it more attractive for other builders to come in?

**Barry White:** The trust is a joint venture between us, the local authority and the private sector. One of the key things that it does is agree to purchase a certain number of houses from a project once it is built. If a builder tells its bank that it needs funding for a site, but it has not pre-sold any houses, it may struggle to raise the finance to open the site.

However, if a company has 60 or 70 pre-sold units on the site, its ability to borrow to put in roundabouts and the site infrastructure and to build the site is enhanced, because the bank can lend in the knowledge that it will get a certain amount of income quite quickly. Having a pre-purchase agreement or a purchase agreement signed up front helps to unlock not only those units but the wider units.

14:00

**John Mason:** Are we talking about a cash-flow guarantee? I presume that there is no cross-subsidy, because all the houses on the site contribute to the cost of the roundabout that you mentioned.

**Barry White:** Yes—the houses all contribute to the infrastructure for the whole site. We do not guarantee anyone's cash flow; rather, we agree to buy a number of houses. That gives the company a cash flow, which makes it more creditworthy in the bank's eyes. Therefore, between the company's own resources and bank lending, opening up the site becomes much more economic. The company will phase the infrastructure across the site rather than put it all in immediately, but having the initial infrastructure in can be enormously helpful in unlocking future parts of the site, too.

**John Mason:** When I read the case study, I wondered whether it meant that the houses that you were buying were paying for more than their share of the infrastructure and the rest were not, but I am getting from your answer that that is not the case.

**Barry White:** We buy at market prices; the houses are bought at market prices. They do not take more than their fair share; the issue is just the certainty about them being sold.

**John Mason:** I am with you.

**Barry White:** Normally, when a builder opens up a site, it might have no pre-sold units. The pre-purchase part of the agreement is the key element.

**John Mason:** That is helpful. Are the houses for what we might call mid-market rent?

**Barry White:** That is what the national housing trust deals with. It relies on mid-market rent income; it has no grant subsidy.

**John Mason:** You have cited a rent of £485 a month, while people in the private sector pay £695 a month. I presume that, in rented social housing with a subsidy, the rent would be even less.

**Barry White:** Yes. I think that housing associations get grants of up to £70,000 a house. If such a grant were put in, a lower rent could be charged. What we do is in addition to what housing associations do; we are not replacing that. Housing associations will continue to do their grant-funded social housing. They also do mid-market rent properties, which are very much our focus.

**John Mason:** Is the ratio of £485 to £695 the kind of level that you would normally expect?

**Barry White:** The rule of thumb is that mid-market rent is about 80 per cent of market rent. People often move from energy-inefficient houses to energy-efficient houses, so they get not only rental savings but lower fuel bills.

**John Mason:** That is great; thank you.

**Jean Urquhart:** I will return to the Reiach and Hall situation. It seems as though a number of renowned architects are facing difficult times in Scotland, although you have cited a couple of buildings for which architects' individual designs have received awards.

You said that Reiach and Hall's comments concerned you. The company has said that the situation calls into question whether it should consider bidding for work. How can you bring such companies on board? Do you see that as important or as neither here nor there?

**Barry White:** We are keen for architects—not specifically Reiach and Hall, but architects like it—and other, good quality—

**Jean Urquhart:** I mentioned that firm because it is referred to in committee paper 1.

**Barry White:** Indeed. We are keen to involve good-quality architects that do good work. We are always looking at ways to improve processes. Like contractors, architects will make their choices about which projects to bid for. I reiterate that the process that we have put in place over the past round of projects is acknowledged to be a big improvement on historical ways of doing business. Can we make further improvements? We are looking at doing that for the next round of investment and at whether we can do something that is better still.

More widely, in the implementation of the construction procurement review, we are keen for the industry to move on to using building

information modelling. That puts the designs online, which allows the architect, the services engineer and the structural engineer to collaborate online. That is another important part of how the public sector can encourage participants to make the process more efficient. Sharing information in that way will be better.

We want good designers to work on our projects. I think that, if you visit Inverness College, City of Glasgow College or any of the other projects that are under way, you will see that we have achieved very high design standards in them.

**Jean Urquhart:** I agree that the submissions are largely positive, but I note that the evidence is largely from local authorities and so on and not necessarily from the end users of schools, for example. I also note that our paper talks about public-private partnerships; I have experience of PFI, and I see that you are still looking at design, build, service and maintain projects. That sort of thing has resulted in frustration for end users, with organisations setting fees for opening classrooms for extracurricular activities or maintaining the school building. Is that issue ever open for discussion? Do you see it as a problem—not for those who build the schools but for users?

**Barry White:** When we launched the investment programme, one of the big changes that we made to help users was to unbundle cleaning, janitorial, portering and catering services from the service bundle and say, “What we really want is a building that is built, maintained and financed rather than fully serviced.” That gives building users much more flexibility in how they use the building.

That was one of the lessons that we took from past projects. For example, something as simple as the headteacher wanting the caretaker to open the school one evening for an extra parents evening became expensive and difficult to organise, because a change process had to be gone through. That was not satisfactory and we think that, by leaving those services with the school or local authority and ensuring that maintenance is the only service that is provided, we are giving a lot more flexibility than was available in the past. That is the right approach, and in the end it is better for users.

**Peter Reekie:** In that change, we took on board much of the detail and many of the points that have come up in the past. For example, we heard about teachers not being able to use Blu-Tack on walls because of the paint job that they would put Blu-Tack on to. In most of our contracts now, the local authority is responsible for a school’s internal redecoration, so it can allow people to pin things on to the wall. We have really reacted to user concerns about the very early PFI deals, and we

have contracts and buildings that are much more flexible and buildings that are fantastically designed and great environments for users.

**Jean Urquhart:** I have two more small questions, the first of which relates to the fact that we in Scotland have not achieved our climate change targets. I note that page 15 of your submission refers to

“Total investment in LED street lighting spend-to-save measures”.

What is the current position? I believe that you have mentioned your ambition for LED street lighting in previous reports. You say that there is “£1.2bn to be saved”, but has anything been saved to date or is that all for the future?

**Barry White:** That figure refers to the savings under the whole programme. Over the past year, investment has quadrupled; of course, I am talking about local authorities, but we are working with them on unlocking that with a toolkit that shows how savings can be produced and which makes it easier for people to put together the case for making that investment.

LED streetlighting investment has quadrupled from about £7 million a year and will rise quickly to about £50 million. There is a payback period of perhaps six, seven or eight years against that investment. However, the saving flows beyond that, because LED lamps might last 15 to 20 years. The £1.2 billion therefore comes from the whole-life saving rather than just the short-term saving. In that case, we are using a short-term spend-to-save measure that reduces the carbon footprint and produces in the long run a cash saving, because the LED lamps last a long time.

**Jean Urquhart:** I want to be sure that I understand this. Has none of the £189 million for spend-to-save measures been spent so far, or has some of it been spent?

**Barry White:** That is being spent. Local authorities are running investment programmes that were at £7 million last year, are at about £28 million or £30 million this year and will rise to about £50 million. By about 2020, the total will be about £190 million but, in the five-year to six-year period that runs up to then, that will be the investment to unlock the overall saving.

**Jean Urquhart:** So the money will be spent during the next five years.

**Barry White:** Some of it has been spent already, and it will continue to be spent over the next few years up to 2020-21. Investment has started and will go on in a rolling programme over the next five years.

**Mark McDonald:** I thank the witnesses for the evidence that they have given. I have only a couple of things to add.

I was pleased to see the pie chart breakdown of spend on hub projects, mainly because it shows that the highest spend is in north Scotland, which covers my patch. Knowing that will come in handy the next time that I am told that all the money goes to the central belt.

I will follow up Jean Urquhart's point about LED lighting. On page 24, you go into some detail about how that is being rolled out. I note that you say that

"over 80% of Scotland's councils are actively using the Toolkit",

which suggests that one or two are not yet on board. I will not ask you to name and shame, although if you want to do so, feel free. How likely is it that we will get full buy-in from all local authorities? Is the £1.2 billion saving based on the current 80 per cent uptake rate or does it depend on every local authority using the toolkit and rolling out the LED lighting?

**Barry White:** I will not name the authorities, but the chap who runs the programme described it as being a bit like the grand national, in that everybody has crossed the line and started, but some runners are slower. Some are charging ahead, but a few are just getting over the starting line and getting moving.

That will always be the case when a work pattern is being mobilised. People have different priorities and it is up to local authorities to prioritise in their own areas. Some are doing other things that have a higher priority right now.

We wanted to help local authorities to frame the case. Unlike other capital investment, investment in LED lighting will pay for itself fairly quickly and reduce the carbon footprint. We have therefore been working to help those who are not that far over the starting line to accelerate, while we stand back and let the others gallop ahead. We have focused our efforts on mobilising everyone.

The overall figure relies on all local authorities getting to a much higher percentage of LED lighting than they have at the moment. It is a pan-Scotland figure.

**Mark McDonald:** I note that the £1.2 billion covers 20 years and I recall that Paul Johnson of the Institute for Fiscal Studies said last week that any number is big if it is measured over a long enough period. That still equates to about £60 million per annum, which is a significant saving across local government if there is full uptake. How has that been modelled? Has the likely saving over the 20-year period been modelled in

partnership with the Convention of Scottish Local Authorities? How did you arrive at the figure?

14:15

**Barry White:** We used our toolkit, which has also been adapted and used elsewhere in the UK. It is useful for calculating what needs to be invested to achieve a particular saving. The toolkit's purpose is to help to frame the case for saying that the LED programme is a worthwhile investment. We have worked with COSLA on the matter, but our focus is very much on working with individual local authorities.

When we started the work on the LED programme, an LED lamp typically cost twice as much as a standard lamp, but that comparative difference has come down to 150 per cent. Having a rolling programme for investment is the right thing to do because, as demand for LED lamps goes up, the unit price comes down. Across the rolling programme, the case for investing therefore becomes stronger, because the unit cost will come down as volumes go up.

To make things easy for people, we used Scotland Excel to set up a framework. We are using the existing collaborative framework with Scotland Excel and saying that local authorities can use it, which makes it easier for local authorities to purchase the LED lamps and to run that on a programme basis. The programme relies on Scotland mobilising as a whole, but we are not seeing resistance to it; it is just a case of how big a priority it is locally.

**Mark McDonald:** Have you, or has anyone out there, done work on how the saving splits between revenue and capital? There is a capital saving on infrastructure replacement and there is a revenue saving on the energy cost. Have you worked out what the split is, or is that not available?

**Barry White:** I do not know the answer to that question. You are right that there are two components to the saving: there is the long-term energy saving and, because LED lamps last longer, there is the life-cycle element of saving and the maintenance saving. The saving will consist of both those elements. I can certainly see whether figures for both are available and pass them to you directly, if that would be helpful.

**Mark McDonald:** It would be interesting to see the figures. I note that your submission refers to making better use of space in order to secure efficiency savings of about £50 million per annum. It would be interesting to know how that figure was arrived at and how you modelled it. I am always intrigued by how costs in terms of space utilisation are measured. I do not know whether you have that information to hand or whether you can provide it later.

**Barry White:** I do not have the information to hand, but I am happy to send you it directly, if it is of interest to you.

**Mark McDonald:** The preamble to your submission refers to areas such as SFT invest and SFT connect. Under SFT place, you refer to disposals. I realise that the hub and other things are about developing new facilities, but the disposal of assets that are no longer required is also an element of estate management. What support does the SFT provide on that, particularly when a new facility is being developed to replace an old one? How involved is the SFT in supporting the disposal side of things, from which the proceeds can be reinvested through capital?

**Barry White:** The SFT gives two levels of support. We have a number of people who are embedded and working in major national health service bodies. For example, we have staff working in NHS Greater Glasgow and Clyde and NHS Lothian alongside NHS staff to help to look after their disposal programmes. The work is under NHS management, but our staff's property expertise and commercial skills provide an extra resource to take some very big sites forward. Sites that have been dealt with in that way include the Victoria infirmary in Glasgow and Bangour village hospital in West Lothian, which are really big sites with the capacity for 500 and 900 homes, respectively.

On the second level of support that we give, following the redevelopment of its city centre campus and its Riverside campus, we have worked with City of Glasgow College and supported Iain Marley, the project director, in taking those sales forward. He submitted evidence on the college's behalf in response to the committee's call for evidence in which he stated that the college worked with the SFT in shaping the disposal strategy. The college is doing the disposal, but we helped to shape the strategy.

That support involves things such as spending a bit of money up front on testing the frame of a building to make sure that it is reusable, for instance. That means that the college can sell the building as a package on which some of the diligence has been done, which means that the sale process should be smoother, as opposed to the developer coming forward with a long list of caveats. There will always be a few key issues to distil after an offer has been made, but condensing those to a small number of points because much of the pre-work has been done by the public sector allows the sale process to be smoother.

**Mark McDonald:** How much of that involves the SFT proactively saying to health boards and local authorities that you can pair up with them and provide expertise? How much of it is about those

organisations saying to you that they would like to tap into your expertise?

**Barry White:** There is a bit of both, because the work is collaborative and both sides have different expertise. The people whom we employ are typically from a property development background, which complements the skills in the health board or in City of Glasgow College, for example. The key is combining those skills. To answer your question, there is a bit of both, because people are aware of what we can do and we sometimes go and offer our help.

**The Convener:** That concludes questions from the committee. If you have no further points to make, I thank you very much for your submission and for answering our questions so comprehensively.

We will have a brief suspension until 2.30 to allow a changeover of witnesses and give members a natural break.

14:21

*Meeting suspended.*

14:29

*On resuming—*

## **Draft Budget 2016-17 (Expenditure)**

**The Convener:** The fourth item on our agenda is to take evidence on the expenditure side of the Scottish Government's draft budget for 2016-17, further to last week's session, which focused on the revenue side. We are joined by the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy, John Swinney, who is accompanied by three Scottish Government officials: Mr Andrew Watson, Mr Graham Owenson and Mr Scott Mackay. I welcome our witnesses to the meeting, and I invite Mr Swinney to make an opening statement.

**The Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy (John Swinney):** Thank you, convener. I welcome the opportunity to appear before the committee to discuss the expenditure aspects of the 2016-17 draft budget and to welcome the committee to Pitlochry in my constituency.

The draft budget that was announced in December was published following the later-than-expected United Kingdom spending review. As the committee will be aware, the timing of that spending review has required us to agree a truncated parliamentary scrutiny period and to reduce by a number of months the amount of time available to the Scottish Government to develop and deliver a draft budget.

Given those time pressures and the relevance to future budgets of continuing engagement with the UK Government over the fiscal framework, it has not been practical to develop a full multiyear spending review. That is consistent with the approach that has been adopted by the Welsh and Northern Ireland Governments, which have also published single-year budgets.

The 2016-17 draft budget is written against a backdrop of continued public spending constraints. The Scottish Government's budget will continue to fall in real terms in each and every year until the end of this decade. By 2020, our discretionary budget will be 12.5 per cent lower in real terms than it was in 2010-11, and our capital budget will be more than £0.5 billion a year lower in real terms in 2021 than it was in 2010-11. However, I am absolutely committed to maximising the public value of all expenditure that is allocated by this Administration.

Therefore, the draft budget prioritises two main themes: supporting inclusive growth and protecting and reforming public services. It is essential not only that economic growth is

maintained, but that the benefits of that growth are accessible to all our citizens. The need to tackle inequality is at the heart of the Government's agenda and of this budget. We will deliver inclusive growth by focusing on investment in innovation, infrastructure, education and skills, and by maintaining a competitive business environment.

Innovation is a key driver of growth, competitiveness and productivity. Our universities have a key role to play, and in 2016-17 we will invest a further £1 billion to support the higher education sector. We are committing funding of around £345 million from our enterprise agencies and from the Scottish Further and Higher Education Funding Council to support research and innovation. We will work with all our partners to drive increased collaboration to create an innovation environment that supports the development of new products, processes and services.

Closing the attainment gap in educational outcomes is key to our ambition of creating a stronger, more sustainable economy and a more equal society. Our commitment to improving educational attainment is supported by additional investment of £33 million in 2016-17 in attainment programmes, our commitment to maintaining teacher numbers and expanding early learning and childcare, and we are again protecting college budgets.

We will also continue to do all that we can to protect family incomes. As we discussed last week, our decisions on the Scottish rate of income tax ensured that we will not put an additional burden on those with the lowest incomes. We also continue to mitigate the most damaging effects of the UK Government's welfare cuts, including through the £38 million welfare fund, and the provision of up to £343 million for the council tax reduction scheme and £35 million to ensure that nobody pays the bedroom tax.

We have consistently emphasised the positive role that public sector investment in infrastructure can play in stimulating economic growth, and we have seen the evidential benefits of that approach. The draft budget supports that continued growth by investing around £4 billion in infrastructure and delivering new schools, hospitals, homes, roads and railways. We have established energy efficiency as a national infrastructure priority.

We will continue to protect and reform public services to ensure that they remain sustainable in the future by delivering on the Christie commission approach of prevention and service integration at a local level. Our vital front-line policing resource budget will be protected in real terms next year and—if the Government is re-elected in May—for every year of the next session of Parliament. In

addition to maintaining 1,000 additional police officers, the draft budget provides £55 million in 2016-17 for a new phase of change and transformation funding for the police.

The budget delivers a balanced settlement for local government and one that will be strengthened by our joint work on health and social care integration and educational attainment. Scotland's local authorities are key partners and we will continue to engage closely with them to deliver shared priorities in what remains a challenging financial climate for us all.

An additional £0.5 billion will be invested in the national health service, which means that we will provide a record total of almost £13 billion in health expenditure, and it will enable an additional investment of £250 million to support the integration of health and social care and to build the capacity of community-based services, which is the most significant reform in health and social care since the creation of the national health service in 1948. Those crucial changes will ensure that fewer people have to be treated in hospital and, when hospital care is necessary and appropriate, we can ensure that people spend less time in hospital and are able to go home more quickly.

The draft budget represents a positive and ambitious programme of investment to promote our economy, drive fairness in our society, deliver opportunities for all and protect and reform our vital public services for the future.

I will be delighted to answer any questions that the committee might have.

**The Convener:** Thank you for that opening statement. As you know, at previous meetings, I have always started with some opening questions before opening the discussion out to members of the committee. However, today, following robust representations by my colleagues, I will come in at the end, instead. The first person to ask questions will be the deputy convener, John Mason.

**John Mason:** I am sure that the cabinet secretary is as surprised at that change as we all are.

It is great to be here in Pitlochry. We had an interesting session this morning, which I will refer to later on.

With regard to the overall figures for the budget, you have made it clear that quite a lot more is being invested in health, but you have also said that issues such as growth are important. Some people would say that we should invest more in economic growth and they ask why health is getting so much money. Can you explain your thinking? Why is health being apparently favoured in that way?

**John Swinney:** We have recognised the importance of ensuring that we have a properly resourced and supported national health service that meets the needs and expectations of citizens. My assessment of the priorities that are widely shared in Parliament is that there is a keen interest in ensuring that the health service, in its broadest sense, is properly funded.

The budget statement has provided those resources to the policy area of health to ensure that we can meet the changing demographic nature of our population. We are in the fortunate position that people are living longer. However, as they live longer, they require a greater degree of support and care, and our challenge is to ensure that we can deliver that in the most effective way possible to meet the needs of citizens. Although the health budget is growing significantly—for the first time, it is in excess of £13 billion in value—it has to meet a rising demand for services within the population, and we have to recognise that in the budget.

The other part of the question relates to investment in growth. With regard to the quarterly gross domestic product figures that came out last week, the strongest sectoral element concerned the construction sector. I think that any analysis would show that one of the significant drivers of that growth in the construction sector, which I think that economic analysis would accept creates a wide economic impact and footprint, comes from the public investment that the Government and our partners are putting into the equation.

When we think about the budget, we must think about a broad range of factors that will have an effect on what will contribute towards the growth agenda. For example, if we were to take the view that the test of the budget was the size of the enterprise agency budgets, that would be to miss the point, because I think that there are factors such as the investment in the infrastructure programme that illustrate an investment in the long-term economic strength of the country that is driven by the priorities and choices that we have made as a Government.

**John Mason:** There has been a lot of coverage of local government in the budget, and a few councils seem to be talking about council tax increases this year. Can you say why we are continuing with the council tax freeze? Will that continue until we abolish council tax, or is this the last year in which you are thinking of having the freeze?

**John Swinney:** Mr Mason is inviting me to reveal what might be the contents of my party's election manifesto. However, important though the stage set in Pitlochry theatre is, I am not sure that it is exactly the location for me to do that—I might get into trouble back at the ranch.

The Government was elected on a commitment to freeze the council tax in every part of this parliamentary session. That was our commitment, and the Government is fulfilling that promise. We think that that is important for many of the reasons that we discussed last week in talking about the wider revenue-raising challenges and questions around the budget. We believe that it is important to provide protection for household incomes in what has been a very financially challenging period for many households. Over the years, the Government has continued to give a strong settlement to local government. If we look back, taking out the impact of removing police and fire costs from the local government settlement, which was done for wider public service reform reasons, we see that in 2014-15 the local government budget rose by in excess of £400 million while in 2015-16 it rose by a further £250 million.

The reduction in the local government budget of £350 million, in resource terms, that I have applied here must be seen in the context of three important caveats. First, that reduction is taking place against a very high baseline for local government expenditure in Scotland. Comparatively speaking, local government's funding has been protected and supported by the Government over many years—I have just cited figures to show how it has risen steadily since 2011-12. Secondly, the scale of the reduction is not unprecedented. In 2011-12, when we faced significant budget reductions, the local government budget was reduced by £438 million. Thirdly, as we discuss the settlement with local government, an important factor to be considered is the allocation that we have made as part of the reform agenda under the integration of health and social care. We are investing £250 million in the integration of health and social care services to drive an important process of reform that is broadly, if not universally, supported within the Parliament as a major priority.

In summary, the reduction in the local government budget is taking place against the backdrop of a high baseline; in previous years, we have faced difficult decisions of this type and local government has managed to accommodate them without the benefit of having that higher baseline; and we are providing practical assistance through the investment of £250 million in health and social care integration, which is designed to ameliorate some of the challenges.

**John Mason:** Thank you. I am sure that other members will come back to that subject in due course.

You mentioned preventative spend, which the committee has been interested in over a number of years. Our briefing paper sums up the

responses to one of our inquiry questions as follows:

*“Reactive services always come first. Long term prevention aims are highly supported in principle, but they do not compete well with more reactive policies dealing with current and more urgent problems.”*

How do you see where we are going with that? Waiting times at accident and emergency wards are easy to measure—that is a reactive service—but it is much harder to measure the quality of service that someone gets from their GP. How do you feel that we are moving towards preventative spending? Do we have any real evidence of that?

**John Swinney:** The Scotland performs framework is designed to give us a set of measures of the performance of public investment and public services in general. One of the indicators reflects public attitudes to public services, and, in a tough financial climate, that indicator still demonstrates strong public confidence in the quality of the public services that people experience. On that performance management point, an important endorsement is made by evidence from surveys of members of the public.

Mr Mason asks a deeper question about the shift in emphasis within public expenditure. As I indicated in my introductory remarks—members will also have heard this in my presentation of the budget statement—the steady, incremental delivery of the Christie commission agenda, which substantially encouraged us to shift the emphasis on to preventative services rather than reactive services, remains an on-going priority of the Government.

14:45

Are we going to achieve that in 12 months? No. There will be a sustained period of re-engineering public services. For example, through the work that is being done on the integration of health and social care, we are beginning to break down the barriers that have existed between the traditional silos of health services and local government services and move to a much more citizen-focused service where the focus is on what the individual requires rather than on what this service provides and what that service provides.

That will help us to move much more readily to identifying interventions that will better support individuals and prevent them from requiring more expensive public services to be delivered in an emergency. The emergency services are the most expensive services to deliver. When somebody needs an ambulance to be sent to them, we incur a significant cost. If we have a care worker adequately and properly supporting the individual and we meet their needs in the home with

proactive services, we are likely to deliver care more efficiently and at a lower cost.

**John Mason:** There does not seem to be much evidence of disinvestment in acute services, as you describe them. Can we disinvest from the ambulances and things?

**John Swinney:** I do not think that that is a particularly good example of where we should be disinvesting from. The focus must be the shift of emphasis from hospital admissions in emergencies. The best measure, I think, is the degree to which we can reduce the number of people who are the subject of emergency admissions to hospital when we could support them better in the home. Some of the numbers will be complicated by the fact that we have a rising elderly population and, therefore, the potential for greater demand, but the shift to prevention might enable us to cope with the increased demand on some of the acute services in the years ahead.

That is just one example of the variety of agendas. Another is the getting it right for every child agenda in the early years, which is designed to identify measures in a range of combined public services that enable us to best meet the needs of our youngest citizens. It is about giving them the best start in life and trying to prevent the crystallisation of problems. If we can properly address things in the earliest years of a young person's life, we can prevent those things from crystallising into deeper problems when they are slightly older.

A third example is the work to reduce offending. We are beginning to see some very good results with reductions in the number of individuals who are reoffending, and that has an effect on the scale of the prison population, which we are beginning to see declining. That is beneficial because we are preventing people from going into the cycle of repetitive offending that we all know has been a problem for many years.

I would not want to suggest to the committee that the job is done. This is work in progress, and it will be work in progress for a considerable time as we shift the emphasis of the public services in this direction. The work is part of a sustained programme to try to enable that to happen.

**John Mason:** Thank you.

I said that I would raise one of the issues that came up this morning when we met members of local organisations, some of whom are still with us. I think that the number 1 issue that came up in the working group that I was in was broadband. I guess that, as a local member, you are reasonably familiar with that.

There seems to be a tension between local groups trying to raise funds and do some of the

work themselves and BT coming in and choosing one area and then another and, apparently, being a bit inconsistent. What finances can we see in the budget for helping with broadband? What relationship do the Government and the likes of BT have to move the agenda forward?

**John Swinney:** On the financing that is available in the budget, the Government has made a commitment—if the number in my head is correct—of about £117 million in this financial year as part of the roll-out of the superfast broadband programme. That is the core contract that we have with BT. The target is to enable at least 95 per cent of properties with superfast broadband by the end of 2017. We have reached 85 per cent, and we are making good progress on achieving the 95 per cent target. That core, significant programme, which is valued at more than £400 million, is going well. We are ahead of its milestones, and about 7,000 properties a week are being enabled with superfast broadband.

We also have provision in the budget through Mr Lochhead's portfolio priorities of about £9 million to invest in community broadband Scotland. Essentially, our contract with BT will enable at least 95 per cent of properties with superfast broadband. I am hoping to get the proportion higher the more we roll out the core fibre across the country. I am optimistic that a greater proportion of properties will be taken in by the contract. We have had a gain share out of the contract of about £18 million, which is £18 million of more capacity. We do not get back that £18 million; we just get £18 million-worth of additional fibre rolled out. That, obviously, will increase the enablement figure of 95 per cent.

I am quite confident that the programme is going well. My biggest priority is sorting out the other 5 per cent of households, so that they get superfast broadband not at the programme's tail-end but as early as possible.

Community broadband Scotland has resources of about £9 million available to it in the forthcoming financial year to enable it to pump prime and be a partner in the development of local broadband projects. For example, a community organisation in an area that will not be accessed by BT may host a broadband project and put in place its own solution. Of course, technology developments are helping that process quite considerably. The key issue is getting notification from BT about where it is not going. If BT will not spill the beans about that, it is a bit of a waiting game. The minute that BT says, "We're going there," the community organisation cannot get the support.

**John Mason:** That point came up in our discussions.

**John Swinney:** We have had a recent example in Kenmore, which is about 15 miles from Pitlochry. We were led to believe that BT was not going to go there, but we have now found out that it is. We may find that the broadband solution that is put in place by BT comes later than the community solution could have been put in had the community been allowed to go ahead with it.

Mr Mason asked about the relationship between the Government and BT on this question. I assure the committee that this is a vigorous area of discussion. I want BT to be clear about where it is and is not going. If I know where it is not going, I can put the resources and the focus in place to work with communities to find solutions. I do not want to be in the situation where communities that had broadband last in the previous programme are the last to get it in this programme. That would be fundamentally unfair.

I credit the previous Government for funding the enablement of about 110 exchanges around the country, including in this locality, that BT was not going to enable with broadband. It could do that only once BT said, "We're not going there." I am anxious to have clarity about where BT is not going, so that we can deploy the investment, the focus, and the energy to find out the solutions.

There are great solutions out there. We have just come to a deal in some of the Argyll islands. The GighaPlus Argyll project, which is a community-based project that is supported by community broadband Scotland, will enable 1,100 properties in Gigha, Colonsay, Islay, Jura and parts of Mull and the Argyll mainland. That was made possible because BT said, "We're not going there." Some imaginative solutions have been put in place by community collaboration. I want to ensure that we can get on with that, but it is not Government that makes the final determination, so we need good collaboration with BT to enable that to happen.

**Jean Urquhart:** During the Paris talks, our Minister for Environment, Climate Change and Land Reform declared that climate change prevention would be embedded in our budget. So far, it looks as though the fund has been cut by some 10 per cent or by approximately £50 million. Given that a lot of people believe that flooding and extreme weather and so on are a direct result of climate change, now does not seem to be the time not to have climate change as a priority. Given that it also fits in with the preventative spend agenda, how do we justify making those cuts in the climate change budget at this time?

**John Swinney:** It is important to look at the different components of the budgets that are relevant to this area and to understand what is going on in the different areas. For example, one of the areas where there is a reduction in spend is

energy. One of the challenges that we have had over at least the past two years has been in deploying allocated expenditure to support the roll-out of renewable energy projects, simply because the industry has taken longer to develop some of those solutions. The development of a positive climate for such projects has not been helped by the changes in the financing arrangements that are determined at UK Government level. I have faced the challenge of how to put money into projects when there has not been a strong enough project pipeline. That explains one of the areas where we have made changes.

In housing, Jean Urquhart will be familiar with the fact that the Government is expanding its investment in affordable housing. Of course, the houses that emerge out of that housing supply programme will all be designed to deliver on our carbon reduction programme.

There are a variety of different areas where we are deploying expenditure that is relevant, such as transport and rural land use. As part of the common agricultural policy reform programme, Mr Lochhead has placed a greater emphasis on the greening elements of CAP support, which are designed to mitigate some of the effects of climate change, so the expenditure in those programmes is also relevant to the delivery of our climate change targets.

Government ministers have embedded this approach within our policy choices and our budget choices. Those are some of the examples that I can cite of where the Government has done exactly that.

**Jean Urquhart:** One of the other interesting things that we learned today was about SEPA's role in relation to flooding. Often, communities that are looking for advice and support are told by SEPA to go and prepare an expert's report on whatever the particular problem might be, whereas one might expect that SEPA would be the organisation to deliver that support. To give an example of practical or local knowledge as it relates to a flooding strategy, we heard that there was a time when people would remove silt from the riverbed, but SEPA is against that. How does that square with the role of SEPA as an advisory body or at least, one would have thought, as a body with expertise that it might share with communities in such an important area?

15:00

**John Swinney:** I would need to know more about the specific examples that are being cited. The Scottish Environment Protection Agency has just published 14 flood risk management strategies for a range of localities around the country. It has done the research and has

identified the communities and properties that might be at risk of flooding, and it has set out the measures and interventions that could be undertaken to address that. In that respect, I think that SEPA has done exactly what Jean Urquhart wants done.

Some of the solutions that emerged from those strategies make up the £235 million-worth of flood risk schemes, which involve engineering works of the type that were undertaken in Perth, which have been tested significantly in the past two months. Other interventions involve attenuation of significant rainfall further up the straths, before the water emerges into places such as the estuary at Perth.

Essentially, the flood risk management strategies determine the agenda of flood risk activity. That work has been done by SEPA. If people think that other work should be undertaken, there is a course of engagement with SEPA that can be followed.

On the issue of the silting up of rivers, the clearing out of ditches and so on, I have had a lot of involvement in this question as a constituency member in this locality, which has many challenges with flooding—I can assure the committee that the River Tay at Dalguise is a different beast today compared to its state seven days ago. There is a lot of knowledge and awareness here. It is important that that local knowledge on these questions is absorbed by organisations such as SEPA.

I have seen many examples in which SEPA has been approached to give licences to clear out burns and ensure that ditches are free flowing. I do not have the data before me, but SEPA has told me that well over 90 per cent of those applications are approved. The idea that there is a prohibition on ditch clearing and the cleaning up of burns is not borne out by the evidence that I have seen. The committee might want to discuss those specific points with SEPA, because there is a hydrology debate about the wisdom of speeding up the flow of rivers and burns versus slowing it down. SEPA has the expert opinion that can inform the debate about what is the right thing to do in certain circumstances. In some parts of this county, the benefits of water being retained higher up in flood plains rather than presenting itself in volume in and around the city of Perth, for example, is pretty easy to understand. Our flood risk management approach has to take that into account.

**Jean Urquhart:** SEPA's budget has been cut at a time when we might want it to do more of that work.

**John Swinney:** We are in a time of challenging financial settlements and I require all public bodies

to contribute towards our ability to live within the resources that are available to us. The Government has specifically protected the flood forecasting and flood awareness work that SEPA undertakes. That is funded separately to the SEPA budget—there are separate budget lines that are clearly visible from the level 4 information in the rural affairs portfolio budget.

I require SEPA to operate in an efficient fashion. As with other public bodies, I require it to do so with fewer resources. SEPA has statutory obligations under the Flood Risk Management (Scotland) Act 2009, and it is from that work that the flood risk management strategies have emerged. Within the resources that are available to it, SEPA must fulfil the statutory obligations that the Parliament requires of it.

**Jean Urquhart:** My final question is again on climate change and energy efficiency. As you know, we took evidence earlier from officers from the Scottish Futures Trust. One of the issues that I raised with them was their commitment to work with local authorities on LED lighting and the savings that that would make. That is the only energy efficiency issue that is listed in the SFT paper. In answer to my first question about climate change, you referred to the actions that the Scottish Government is taking in house building, ensuring that better houses are built that will not need to be altered. Will that feed through to the SFT equally? Will you have the influence over capital development to ensure that that is the case for all building?

**John Swinney:** Yes. As Jean Urquhart fairly says, the SFT has done an excellent job on the public lighting projects, which are designed to save money and deliver energy efficiency. Those values also underpin the design approach that is taken in the construction of public buildings to improve the energy efficiency of those buildings. The mandate that the SFT has from ministers is to act in a fashion that delivers greater value for the public purse, and a key way in which that can be achieved is through greater energy efficiency. That is, therefore, a key part of the work of the SFT.

**Gavin Brown:** I am trying to establish what is happening to the housing budget. On page 86 of your budget document, the housing supply budget line appears to decrease by about £1 million between 2015-16 and 2016-17. However, when you delivered your budget statement, you said that you were going to spend £90 million more next year on affordable housing. If the overall budget goes down by £1 million but you spend £90 million more on affordable housing, what are you spending the best part of £90 million less on in order to achieve that balance?

**John Swinney:** The key factor is to incorporate a budget line that is not in table 9.03, which is the

transfer of management of development funding that is part of the local government settlement—it is on page 95 of the budget document and totals £91 million. That gets added on to that housing supply figure to demonstrate the increase for housing supply.

**Gavin Brown:** To your knowledge, no housing budget lines will go down next year.

**John Swinney:** On a like-for-like comparison, there will be a reduction in the resources available for help to buy. We have prioritised improving the supply of affordable housing.

**Gavin Brown:** Help to buy funding will be reduced. Are you able to give us an idea of the magnitude of the reduction?

**John Swinney:** We can give you a detailed breakdown of what lies beneath those figures.

**Gavin Brown:** Your press release on help to buy said that you were going to devote £195 million to it over a three-year period. Have you determined what the budget will be for 2016-17?

**John Swinney:** That has been determined—if I can find the right page, I will be able to tell Mr Brown what the figure is. I do not think that I can break it down beyond what I have in front of me, but it will be part of a budget total that reaches £224 million. I will have to write to the committee with the exact composition of that element.

**Gavin Brown:** That would be helpful. Thank you.

Let us leave housing and turn to one of my favourite topics, which is the Scottish business development bank. When you gave evidence to the committee at the end of 2014 in Arran, you told us that things were progressing well. When I asked in May, I was told that I would get an answer before the summer recess. When I asked a parliamentary question in September, I was told that there would be an announcement by the end of 2015. Where are we with the Scottish business development bank?

**John Swinney:** We have set out the market assessment of what we think is the requirement to be fulfilled by a Scottish business development bank: what we consider to be the gaps in the finance that is available in the marketplace. We published that report some months ago—probably in October or November, I would have thought.

We followed that up with an announcement of resources to create a small and medium-sized enterprise investment fund, which is in essence expenditure to be made available through the existing channels that we have for the Scottish Investment Bank to support business investment and to assist in filling some of the gaps in the marketplace so that we improve the supply of

funding. This is all about trying to improve the supply of funding to the marketplace.

The challenge is about how we can establish, within the current accounting arrangements within which we are required to work, a regenerative business development bank that has greater flexibility than there is under the arrangements that we have with the Scottish Investment Bank, which operates within Scottish Enterprise. It is challenging because we operate within an annualised set of financial and accountancy arrangements. As Mr Brown knows from the issues that we are wrestling with around the fiscal framework and the interaction with the UK Government's finances, our ability to hold resources and pass them over from year to year is the accountancy challenge that I am trying to overcome.

That work is not complete and it is not without its difficulties.

**Gavin Brown:** Is there a timescale? I understand that there are challenges, but is there a current Government timescale for when the bank will be open for business?

**John Swinney:** In answering Mr Brown's questions, I have tried to illustrate that I want to get on with providing support in the marketplace. That is my objective, and we have done some of that already by undertaking research to identify the challenges in obtaining business finance and putting the SME investment fund in place to enable that to be done. I have done that rather than thinking that I must set up the Scottish business development bank first.

We are trying to get to the Scottish business development bank by resolving the accountancy issues but, while doing that, we have also worked to ensure that we improve the supply of finance in the marketplace.

**Gavin Brown:** I take all that on board, but the actual question was whether there is a projected timescale.

**John Swinney:** I am trying to do it as quickly as possible, but I do not want to suggest to the committee a timescale that does not bear any relationship to the challenges and the complexity of the issues with which we are wrestling.

**Gavin Brown:** You have already answered a couple of questions about local government. A brief glance at the budget document suggests that the cut was in the region of £600 million, but you used a figure of £350 million. Is that the difference between capital and revenue?

**John Swinney:** There is a £350 million reduction in resource departmental expenditure limits. In capital DEL, there is a reduction of £150

million, but that is to do with profiling of the expenditure.

I have given a commitment to local government that it will receive 26 per cent of the CDEL that is available to the Scottish Government until 2019-20. That is an extension of one year to the commitment that I previously gave to local government. I have simply reshaped the way in which local government will get its capital expenditure. It will get £150 million less in 2016-17, but it will get £150 million more in later years.

15:15

**Gavin Brown:** At budget time, you always talk very openly about local government expenditure as a percentage of the Scottish Government budget. Is it fair to say that that share goes down this year, given that there are reductions in the budget?

**John Swinney:** Yes, it goes down to 35.7 per cent in 2016-17.

**Gavin Brown:** For reference, what was it for 2015-16?

**John Swinney:** I do not have the number for 2015-16 in front of me, but when the Government came to office it was 35.9 per cent.

**Gavin Brown:** You have given reasons for the cut to local government, but I wonder whether you are doing a fair like-for-like comparison. You said that the integration of health and social care could reduce some of the burden on local government. However, some of the bills that the committee has considered over the past couple of years—such as the Carers (Scotland) Bill, which has not yet been passed by Parliament—add significant sums on to what local government will have to spend. The childcare elements, which will be fully implemented in the next financial year, and the named person legislation also put some financial resource burdens on local government. When I tot those three up, it seems that you are reducing the resource budget by £350 million but asking local government to do quite a lot more with its budget. Do you think that your comparison is fair?

**John Swinney:** Yes, because we have allocated more resources to local government over the years. The numbers have gone from £11.274 million to £11.682 million to £11.933 million, so there is a trend of increasing resources available to local government. When Parliament requires local government to provide a particular service, additional resources are put in place.

As I went through with Jean Urquhart in relation to the SEPA budget, we are currently at a point where we have to live with reduced resources. Therefore, I must place a requirement on public

organisations to act in a more efficient fashion to stretch the resources that are available to us.

We should look at the true effect of the local government settlement. The figure I gave to the committee of a £350 million reduction does not take into account the fact that we are investing £250 million in health and social care, which is an area of significant priority for local government and one in which it is a key partner. That £250 million goes into an area in which local government has a significant policy and operational responsibility. We have to look at all of the factors together.

**Gavin Brown:** I accept that entirely, and you are open and up front about it. You mentioned areas where some of the burden on local authorities might be lessened as a consequence of the £250 million. However, flicking through some of the bills that we have looked at, it is pretty obvious that we are increasing their responsibility, as well as the amount that they will need to spend. I just feel that you did not mention that.

**John Swinney:** We have put in place the different increases in budgets. For example, the local government budget went up by 3.62 per cent in 2014-15 when the Scottish Government's budget was going up significantly less than that in cash terms. The difference was that we were putting resources in place to support new services such as the provision of greater capacity in early years support and early learning. The Government provides local government with additional resources to support the new burdens, and we are now in a position where we have to address the financial challenges that we face across the board. Local government has to play its part in that.

**Gavin Brown:** Are the figures for the additional burdens, the additional resource for childcare and so on included in the budget figures that are published for local government, or will they be additional to the figures that you publish for local government?

**John Swinney:** The local government numbers—the headline grant in aid—will be supplemented by sums of money that will be available in other portfolios, which will be added in to some of those totals. There will be a combination that will be clear from the budget documents.

**Gavin Brown:** Just for clarity, are you planning to add stuff for other responsibilities on to the headline numbers for local government?

**John Swinney:** No. The Government sets out the global level of financial support that we make available to local government. Specific decisions will be taken within other portfolios that will result in local government acquiring more resources beyond what it has now. That is what we discuss at the spring and autumn budget revisions.

Any consideration of the wider local government budget position has to take into account the fact that, over the years, we have put in place specific support that has met the requirements of new policy priorities that Parliament has required local government to bring forward.

**Gavin Brown:** Thank you. I have a couple of smaller issues to ask about now. Scottish Water's budget for this year appears to show that new or additional borrowing will be nil over the course of the financial year 2016-17. Does your longer-term commitment over the five or six-year period remain the same, or is that reduced accordingly?

**John Swinney:** It remains the same.

**Gavin Brown:** That remains the same, so it is purely for next year that it is not the same.

**John Swinney:** We have a commitment to investment in the Scottish Water programme over a five-year period. The requirement for that investment is a reflection of the financial strength of Scottish Water at given times and the resources that it has at its disposal. It does not make practical sense to draw down resources in advance of requirement, but our commitment remains the same.

**Gavin Brown:** Lastly, I have question about the Forth crossing. I had a look at the level 4 data for that. Since 2012-13, the budget for the capital grant has been about £5 million a year—it has been £4.9 million, £3.9 million and £5 million, and it is £5 million in the current financial year. Next year—2016-17—the budget goes up by 80 per cent, from £5 million to £9 million, which is roughly where it was back in 2011. Did that increase come as a consequence of, or response to, December's problems, or was it always going to happen?

**John Swinney:** That is for planned maintenance—the programme that had already been planned to be undertaken.

**Gavin Brown:** So even if December's problems had not happened, the budget would still have been £9 million for 2016-17.

**John Swinney:** Yes.

**Gavin Brown:** Okay, thank you.

**John Swinney:** I take this opportunity to say to Mr Brown that the help to buy element of financial transactions in 2016-17 will be £55 million.

**Gavin Brown:** Thank you.

**Mark McDonald:** I go back to local government, cabinet secretary. You have said in the chamber that local government needs to look at reforming the way in which services are delivered—in particular, at the possibility of shared services. In your discussions with local government, what appetite or otherwise have you detected for the

shared services agenda? I know from my time in local government that there was often reluctance to examine the benefits of shared services properly.

**John Swinney:** Frankly, the picture is varied around the country. There are examples of enthusiasm and appetite for shared services; in other areas, that is less so.

We have to maintain as a priority in the budget the focus on the Christie commission's agenda, which was all about breaking down barriers and boundaries in public service provision. The measures that the Government has put in place to strengthen community planning partnerships and to encourage a greater focus on the delivery of outcomes have all been designed to ensure that there is much greater sharing of services not only within the local government family but between the local government organisations and other public service providers.

There is a way to go on all of that. There is much that could be achieved by local government; equally, there is a way to go in the sharing of public services among public bodies. Some of the points that are included in the budget—some of the challenges to different public bodies in their financial settlements—are designed to be an encouragement and motivation from me to ensure that more public services share services than is currently the case.

**Mark McDonald:** One way in which the reform of services can be driven is through the drawing down of unallocated reserves to spend on transformation projects. My local authority, Aberdeen City Council, currently has something in the region of £116 million of unallocated reserves, which is equivalent to 27 per cent of its revenue budget. Audit Scotland recommends a buffer of around 3 per cent. Are you aware of the overall picture in local government? Does the Scottish Government hold those figures or are they available through COSLA?

**John Swinney:** The figure that I have in my head for local authority reserves is about £1.8 billion. [*Interruption.*] I am being encouraged not to use that number, so I had better not use it. I am pretty sure that I have seen an Audit Scotland number of £1.8 billion, but I do not think that that will be a figure for unallocated reserves. The Government will have that number, and I could certainly make it available to the committee.

**Mark McDonald:** People are often not aware of what are statutory services—the services that local authorities are required by statute to provide—and what are the services that are delivered because the local authority has made a policy decision that it wishes to provide them. Are figures available for the breakdown of the cost of

the delivery of statutory services versus the non-statutory ones?

**John Swinney:** I do not have those numbers, and there is a danger in focusing on that discussion. I am more interested in encouraging a focus in the public sector on meeting individuals' needs.

A service that may be required by statute can be more effective if it is delivered alongside some services that are not required by statute. As a combined proposition, they may make more impact on individuals' lives and a greater contribution towards the preventative agenda that Mr Mason questioned me about earlier.

It is a false choice is to have a discussion about statutory and non-statutory services. The more important consideration is the combined effect of services on individuals and how we can best maximise the effectiveness of those services.

**Mark McDonald:** There are clearly roles for others, such as the third sector, in the shared service agenda or other ways of working. I recently visited a project in Aberdeen that is run by a third sector organisation, which supports individuals from extremely troubled backgrounds not only to gain but to sustain housing tenancies. That obviously has a knock-on benefit to local authorities. Is enough of that sort of collaboration with the third sector happening?

15:30

**John Swinney:** There are good examples, but such collaboration could go a great deal further. For example, a lot of the work on reducing reoffending is undertaken by third sector organisations, working with public sector partners—particularly the Scottish Prison Service—and they have proved to be very effective in redirecting individuals from their previous activities and, as a consequence, saving the public purse significant sums.

There are good examples but, as for the rest of the agenda, the approach requires sustained leadership. The Government provides that sustained leadership, but it needs to be supported and endorsed at local level.

**Mark McDonald:** One of the other things that have been raised with this committee and others is how change fund money was used. In a lot of locations, projects seem to have been funded that were seen to be delivering benefit for individuals and communities. However, instead of mainstreaming those projects many local authorities pulled the plug the minute that the change fund money was no longer on the table.

Do you think that, for some local authorities, the change fund was a missed opportunity to get into

the kind of service redesign and reform that we are now looking at for the coming budget year?

**John Swinney:** I do not think that we will ever get to a period when we will say, "That's it—services do not have to change any more." We will constantly reform and revise services and the way in which we deliver them to individuals.

A lot of good learning emerged from the change funds, which have led to significant changes. The learning from the early years collaborative, which involves participants from all 32 community planning partnership areas, has led to huge change and development in the provision of services and approaches to meet the needs of our youngest citizens.

I have also cited the example of reducing reoffending, and in elderly care we have seen that the thinking from change fund projects has influenced the design of the integrated joint boards.

The learning has been good and beneficial, and the Government wants to encourage and foster that in the years to come.

**Mark McDonald:** One of the discussions that we had this morning was about dilapidation and repairs to private sector property, whether housing or retail, and the difficulties that arise in encouraging and stimulating the work that is required in those areas.

Lack of repairs can create difficulties for energy efficiency, how a community looks and feels and public safety. Are those difficulties on the Scottish Government's radar?

**John Swinney:** Some of those issues are encapsulated in the regeneration agenda that is being supported through the budget. Around the country we are all familiar with very good examples of success being delivered through that regeneration programme, which stimulates wider private interest and involvement. One of the challenges is that buildings are hard to repair because they have fallen into disrepair, and property owners may not be taking a particular interest in resolving those issues.

The statutory powers that are available to Government and local authorities apply largely when there is an issue of public safety. The fact that a building is run down and ugly does not necessarily mean that the Government or local authorities can intervene—there has to be a risk to the public. That leads to a lot of frustration, but some of the collaborative work that we are encouraging to change the nature of some building uses, improve housing supply and find alternative uses through the affordable housing agenda is designed to address those points.

**Mark McDonald:** On the retail side, for example, might local authorities that have not already done so consider rolling out business improvement districts, since they could support that sort of work?

**John Swinney:** These are all beneficial steps and interventions that can make a real difference. We are all familiar with examples. A particular challenge arises where there is a difficulty with property owners not wishing to follow an agenda of repair and renewal, and that can cause significant frustration in communities.

**Jackie Baillie:** I thank the cabinet secretary for ensuring that the Finance Committee came to his constituency—it is indeed beautiful. Having said those nice things to him, I will press him just a little, which he would expect.

The big loser in the budget by anyone's estimation is local government. We can quote various figures at each other, but the SPICe briefing suggests that the largest real-terms reduction is local government with a figure of £774 million. If we split the difference and allow a like-for-like comparison, the figure is £500 million, which represents a 5 per cent cut when capital has been taken out. That is a sizeable portion of money to take out of an already diminishing budget.

I do not think that you can compare the figures with what happened previously—I think that you mentioned 2011-12—because the budget is on a diminishing line. You quoted figures of £11,000 million but, in reality, the budget has gone from £10,756 million for 2015-16 to £10,152 million in 2016-17. Is it not the case that the trajectory is downwards?

**John Swinney:** Let me just explore a few of those issues. I do not agree that this is an already diminishing budget. It cannot be, because the budget went up from £11,274 million to £11,682 million and then to £11,933 million. In anyone's book, that is an increasing budget.

I have not seen SPICe's figures, but I suspect that the number is of a character that must not be taking into account—or SPICe must be including in the reduction—the reprofiling of capital expenditure, which essentially would have inflated the local government budget line in 2015-16. I accept that; that is the case. Local government had a much more significant capital budget in 2015-16, because it was getting paid back—as I committed to do—from resources that I took out of the local government capital budget in 2012-13 and 2013-14.

I am happy to confirm to the committee for clarity that the resource budget for local government has been reduced by £350 million. The capital budget is down by £150 million, but

that is a temporary factor and local government will be repaid in later years.

**Jackie Baillie:** We can debate the numbers, but I reduced the £774 million that SPICe estimated as the largest real-terms decrease and removed the capital that it had shown to take down the figure to £500 million.

Let us not argue about the figures, because in my local authority area and indeed others cuts are now being made year on year. Local authorities are finding little left to cut. Take just the number of job losses—40,000 jobs have been lost in the public sector and COSLA estimates that 15,000 jobs will be lost as a result of the latest cuts. If this was a private company, members would be standing up in Parliament screaming for a Government task force to come in and help.

We cannot, in all honesty, say that the cuts are not having an impact and that, somehow, local government is operating from a higher base. What are we going to do about those job losses? Forgive me for saying this, but I think that you have made a choice that local government will be the big losers and therefore the majority of cuts are channelled towards local government.

**John Swinney:** First, I take issue with Jackie Baillie's assertion that local government is not operating from a higher base. I return to the point that I have made before: the local government budget has risen in cash terms in each year since 2011-12, with the exception of when we removed the police and fire resources; I think that we all accept that as a structural change to the public sector budgets. Therefore, by its nature, local government is operating from a higher base.

Secondly, any analysis of the discussion has to take into account the change in the way in which we will deliver health and social care services that becomes effective from 1 April. We are moving to a situation whereby integration joint boards in every local authority area will combine into one integrated service the resources and activities of what was formerly done within the health service and what was formerly done within local authorities. When we integrate services of that nature, we find duplication, overlap and people who were being assessed by this service and also by that service, so we remove that duplication to simplify the service available to individuals. The Government will add to that by investing £250 million of new money to support the process.

I would be the first to accept that this is a challenging settlement for local government, but it comes with an agenda of reform and with financial support to address the challenges that exist.

Finally, the member mentioned choice, and I have made numerous choices. Hundreds of choices have been made. Every budget line is a

choice by the Government. Jean Urquhart challenged me about the reduction of 6.8 per cent to the SEPA budget. For local government, there is a reduction of 3.5 per cent of the resource grant in aid from the Government and a reduction of 2 per cent of total local authority expenditure, so the choice that I have made is to make a bigger reduction in some public bodies than there is for local government. Of course, there are choices for all members of Parliament—it is perfectly possible for MSPs to bring forward alternative options, and I look forward very much to seeing those.

**Jackie Baillie:** Indeed. I point out for the record that, according to the SPICe briefing, there is a 7 per cent real-terms reduction in the local government line between last year's budget and this one.

**John Swinney:** I have not seen the SPICe briefing, but what matters is the Government's approach in looking at those things not purely and simply as numbers. I am answering the committee's questions about numbers, but I encourage the committee to consider some of the wider questions that arise out of our budget decisions and not to overlook the investment of £250 million in integrated health and social care, which I think is to be welcomed as a significant contribution to the creation of integrated person-centred services.

**Jackie Baillie:** You will find no disagreement from me on that. In fact, we argued for something similar except that the quantity was greater.

That said, I understand that the money will be channelled through health and I have already heard that finance directors in health who are struggling with their budget seem to think that a goodly proportion of the money will be theirs. I have heard that there is a split of £110 million going to health and £140 million going to local government. What flexibility is afforded to local government in its £140 million?

**John Swinney:** Some of those issues are still under discussion with local government. When I made the budget statement in December, I said that I would update Parliament on these matters before stage 3 of the budget process, and I will do that.

On the substantive question that Jackie Baillie poses, I want to make it crystal clear that £250 million is going into integration joint boards. The Government will ensure that the money is properly disclosed and audited and that there is transparency, so there can be no suggestion that it will go anywhere other than into the activities of integration joint boards.

15:45

**Jackie Baillie:** I am very pleased to hear that, because that is not the kind of chat that is going round. I am encouraged by your promise to monitor that and to ensure that the money gets to the right place. That is certainly reassuring.

On the back of that, I want to raise the issue of health. You have been most generous to the health department out of all the departments. Greater Glasgow and Clyde NHS Board has reported that it expects a £16 million overspend before the year end, and Lothian NHS Board expects an £85 million overspend before the year end. Other health boards across the country face deficits that may end up consuming more than half of the uplift. In some cases, two thirds of the uplift may be consumed.

There is the vexed question of whether more money should be thrown at health. If you are suggesting that that should be accompanied by reform, what reform do you see happening?

**John Swinney:** That is a very helpful question in looking at the interrelationship between health and local government services. It also addresses the previous question that Jackie Baillie asked me.

To put it at its bluntest, if integrated health and social care is not successful, individuals will present themselves at hospitals and A and E departments. None of the systems operates independently. People—our fellow citizens—are in local authority social care as it is currently constituted, health service primary care and health service acute care. They just happen to be in one bit of the service. It will be better for us if more of those individuals are in the community setting, supported in their homes, and assisted with care support in their localities. Therefore, we have to look at those as essentially a joint integrated service. The Government's significant investment of new resources in integrated health and social care is designed to ensure that that service can meet expectations and requirements in the population and that we are effective in ensuring that individuals get the care that they require in the appropriate setting. That is the key priority that we must take forward.

**Jackie Baillie:** I do not disagree, but there is a genuine fear that the squeeze on local government, which is one of the key partners that deliver at the community level, may distract from that. I do not think that anybody would want that.

**John Swinney:** I have said what the £250 million is designed to do. It is not just about an injection of cash; it is about cash and reform. Whatever people took out of my budget statement on 16 December, I hope that they took out the necessity of continued reform in health and social care as one of the key landmark messages of the

budget statement. We have the legislative architecture in place to do that and the integration joint boards in place, and we have put more money in place to help with that. That is designed to ensure that the service can meet expectations and needs.

**Jackie Baillie:** I turn to the police. I think that the Auditor General for Scotland reported last year on, and she certainly issued a press release at the end of December that talked about, the financial strategy that she required of the police. I think that her first report was in November 2013; she has reported again since then. She required the police to produce five underpinning strategies, which are still not in place. The conclusion is that Police Scotland and the Scottish Police Authority still operate an inadequate financial strategy. Are you confident that the money that you are giving them will be spent on its purpose?

**John Swinney:** I am. The requirements that Jackie Baillie talks about are all entirely reasonable, and they need to be put in place to ensure that we have very clear governance arrangements around the Scottish Police Authority and very effective budget management at the Police Scotland level and the Scottish Police Authority.

**Jackie Baillie:** The five underpinning strategies concern procurement, estates, the fleet, the workforce, and information and communication technology. They are central issues. My understanding is that three out of the five have been submitted and that two do not have good enough financial information. I do not understand why you have confidence in the financial strategy when Audit Scotland says that there is a problem. I would simply say that, if you are putting in additional public money, I would be hugely encouraged if it were monitored, because the danger is that money that is given for reform will be spent on operational matters, as we have seen before.

**John Swinney:** I am happy to give Jackie Baillie an assurance that the situation will most certainly be monitored.

The chair of the Scottish Police Authority is clear about what needs to be done to put in place the correct, appropriate and most effective governance arrangements. The Cabinet Secretary for Justice is clear about what I require him to undertake in this area, and that will be taken forward by the relevant authorities.

**Jackie Baillie:** I want to turn to infrastructure, but for the sake of time, I will ask two questions at once.

Earlier, we heard about the AWPR and projects such as those in Dumfries and Galloway that are now considered to be on rather than off balance

sheet. Obviously, that diminishes our capacity to do more with the capital budget. Have you decided how those projects are going to be funded? Are you going to use additional borrowing, or is there enough capital in the budget to cope?

**John Swinney:** The capital budget works on the assumption that we will borrow £316 million in 2016-17, and it makes provision for all the projects that Jackie Baillie has raised. They will all be treated as public sector projects.

**Jackie Baillie:** Can I be parochial—

**John Swinney:** I am staggered. That would be as out of character as the convener not asking the first question.

**Jackie Baillie:** I know.

I could not believe it when I saw it, but there is a line in your budget document that talks about maintenance for the Forth and Tay bridges. Where is the Erskine bridge?

**John Swinney:** It was near Clydebank, the last time I looked. With any luck, it is still there.

**Jackie Baillie:** Not if you do not maintain it. Where is it within your budget document?

**John Swinney:** I will need to check and get back to Jackie Baillie on that—and, despite my earlier flippancy, I will do that seriously. I suspect that the figure is contained in the network maintenance budgets—I think that the specific bridge budget figures might be at level 4. As for the Forth and Tay bridges, I will, if you give me a second, try to find the relevant section.

**Jackie Baillie:** It is table 12.06 on page 127. There is a separate entry for Forth bridge and Tay bridge maintenance. As you will recall, the Erskine bridge was a toll bridge, so I was wondering why it was not shown in the same table.

**John Swinney:** I think that it will be included in the routine maintenance line, which is a few lines up and involves a much larger sum of money. That is my best assessment but, for the sake of accuracy, I will check whether that is the case.

**The Convener:** That concludes questions from the committee. I have some of my own, but I will try to be brief. People always say that when I come in with a load of questions at the start it leaves less for them to ask about, but I think that the questions that have been asked have led to even more questions needing to be asked. Do not worry, though—I will not ask all of them.

Cabinet secretary, I wonder whether you could set the scene for the draft budget, as you have not done so so far. Has it been heavily influenced by the UK effectively cutting your fiscal resource DEL by £371 million in the financial year beginning 1 April?

**John Swinney:** The Government's spending plans are clearly heavily influenced by the context that is set by the UK Government. In real terms, we have seen a 1 per cent reduction in our total DEL budget. As I set out in the budget statement, our fiscal DEL will have been reduced by 12.5 per cent in real terms between 2010 and 2020, meaning that we no longer have £1 for every £8 that we have available.

**The Convener:** When we look at local government, SEPA and other areas in which there will be reductions in the money that is going to be available next year, the reality is that you have less money to play with. Given your manifesto commitment to increase health spending by at least the rate of inflation, that does not leave you a lot of room for manoeuvre, does it?

**John Swinney:** I still have to fulfil the Government's commitments to public services. We have provided specific funding assurances on health and policing, but our having to live within a constrained fiscal envelope has required us to make the decisions that we have made. Last week, we discussed my decisions to boost income in the Scottish budget and in those areas where I have chosen not to increase income.

**The Convener:** As has been mentioned, health is getting a substantial real-terms funding increase of £444 million—I am only going to mention real-terms figures—or 3.5 per cent. Within that figure, however, sport and legacy funding will see a significant reduction from £60.5 million to £42.5 million. Why is that?

**John Swinney:** That is to do with the winding up of major events that have been undertaken as part of the sport programme.

**The Convener:** Are you talking specifically about the Commonwealth games?

**John Swinney:** Commonwealth games things will be working their way out of the numbers, and there will be Ryder cup comparisons and a variety of other events.

**The Convener:** We have touched on disinvestment in the preventative spend agenda. However, Perth and Kinross Council has agreed a package of transitional funding of over £1 million for 2015-16 and 2016-17 for the implementation of evidence-based programmes while remodelling the spend on children's services to increase the sustainability of prevention and early intervention. Such work is being undertaken in that area, although perhaps not as much as we would like.

In his evidence, which combines many of the responses that he received, Professor Cairney states, with regard to the preventative spend agenda:

"We need more Scottish Government direction, such as detailed guidance to accompany the Community Empowerment Act".

Professor Cairney's evidence also states that we need to

"Produce a 'long-term public sector reform blueprint with agreed outcomes and milestones for all agencies that are seen as targets that must be met'".

What is your view on that? Are we going to go forward in that vein?

**John Swinney:** I believe that all the guidance that anyone would ever require is out there. The Government's response to the Christie commission was the establishment of the four pillars of the reform programme: prevention; people; place; and performance. The Government has set out a very clear framework that we intend to act within. We have also followed that up, in some cases, with major structural reforms, such as the reform of the police and fire services, or service reform, such as the integration of health and social care. Those significant reforms must be contemplated. To me, the guidance exists. I also think that there is something contradictory about saying that we need much more guidance on community empowerment. By its nature, community empowerment is about saying, "If they fancy doing it this way in Lochinver and they fancy doing it that way in Pitlochry, who are we to judge?"

The Government has tried to set out an agenda for reform not in a restricted and constrained way but in a fashion that enables public authorities and community organisations to work together to find solutions that meet the needs in their localities. I will give an example from your locality, convener. On a recent visit to the island of Arran, I was struck by the fact—it was subsequently confirmed in a conversation that I had with the chief executive of the local authority—that the council's view of how public services should be designed and operated on Arran, which is a distinctive community with distinctive needs, is different from the view that it takes on public services in the rest of North Ayrshire. We have to be open to different methods of delivering and deploying services to meet the needs of individual localities.

16:00

**The Convener:** In the past, we have heard from Government that prevention thinking should underpin all decisions, but it appears that there is still a lot of procrastination out there. How do we break up the log jam that has caused the committee great frustration in recent years?

**John Swinney:** We have to see the issue in its proper context. A lot of good stuff is happening. In previous years I have gone away from Finance

Committee meetings with a strong sense that the committee was frustrated about the level of progress being made, and I have gone on to press public bodies and my officials to undertake assessments in that regard.

I have also engaged in quite wide discussions. The committee might be interested in taking evidence on the matter from Professor James Mitchell in relation to the what works Scotland project that we established to review and assess the progress and pattern of public service reform. Professor Mitchell, who is an independent academic commentator, has certainly described to me some really quite encouraging performance and activity in the country.

There is evidence of significant progress out there. Does it need to be sustained and continued? Yes, it does. Must it be intensified? Yes, and the Government is determined that that will happen.

**The Convener:** Thank you.

I want to touch on some issues that came out of this morning's workshops. We were, of course, talking to people from your constituency, some of whom had broad concerns and some of whom had specific concerns. People welcome the dualling of the A9, but there is concern that while the road works are going on, Pitlochry and other towns such as Dunkeld might be disadvantaged. What will the Scottish Government do to mitigate the impact of the works and ensure that Pitlochry and the highland Perthshire economy continue to thrive during that period?

**John Swinney:** There will have to be the most intense active engagement with communities on the question. As developments are planned, it is essential that we have proper, deep engagement with communities about the implications of the work. Signposting and information must be clear, to enable people to understand the dualling adjacent to the A9, and that can come about only if there is good, high-quality engagement with local communities. As for some of the planning issues that have already come up, I as the local member am involved with Transport Scotland and the designers in a lot of conversations with individual residents and businesses about mitigating the impacts.

**The Convener:** Thank you.

Other issues that members said emerged from this morning's discussions included community broadband, flooding and farming. On the last, for example, the farming community expected 90 per cent of people to receive 90 per cent of their grants before Christmas, but that did not happen. One issue is broadband capacity to cope with questionnaires, and another is the cost per

application, which we were told this morning is an astronomical £10,000.

According to the table on page 102 of the draft budget document, the budget for payment and inspections administration will increase from £45.6 million to £55.6 million and the budget for common agricultural policy compliance improvements from £14.2 million to £26.2 million. The explanatory paragraph on the following page comments on the need to

"operate the CAP efficiently and effectively"

and so on. Why is such a significant increase needed? It seems odd to farmers that so much additional money is going on administration at a time when they are not getting the grants that they think that they should receive.

**John Swinney:** There are essentially two points here, convener. The first is that we dealing with significant reforms to the administration of the common agricultural policy as dictated by the European Union and as configured to meet the aspirations and interests of the farming community in Scotland. The Cabinet Secretary for Rural Affairs, Food and Environment has, with my support, been managing a very challenging project to put in place an administration scheme that will enable us to make the payments as timeously as possible within the reformed common agricultural policy. That work is under way and payments have begun to be made.

Secondly, there is an absolute requirement for our schemes to be EU compliant. I appreciate that the budget document indicates that the costs are going up, and a lot of that is about information technology systems and the additional compliance and inspection that the European Union requires of them. However, the cost of our failing to be EU compliant would be even worse than the cost of compliance. Yes, the costs are difficult. Would I prefer the money to be spent on other things? Yes, that would be easier. However, the money has to be spent on administration in order to guarantee compliance, because the cost of non-compliance would be an even greater factor for the Scottish budget.

**The Convener:** Thank you.

Finally, I will touch on another point that came out of this morning's workshops with your constituents. On flooding, someone commented that Forestry Commission Scotland no longer clears out ditches, burns, culverts and so on in the way that it used to. As far as your constituents are concerned, that is increasing the flooding risk. You talked about the Scottish Government's allocation of £235 million for flood prevention schemes, but according to your constituents, if some of that work was actually being done, there would be no issue. Page 101 of the budget document indicates

that the Forestry Commission's budget is being cut from £64.1 million to £61.3 million. Will that not have an impact on activities such as ditch clearing and keeping burns free of branches? It seems a fairly modest matter, but it has led to considerable concern among your constituents.

**John Swinney:** One of the key points in this respect relates to the work in the different areas that are affected. For example, we have protected in its entirety the £36 million budget for woodland grants, which form a key part of the Forestry Commission's work. The contraction relates to certain programme costs, which are being reduced. However, that is much the same kind of change to the budget that is being applied to most other public bodies in order to guarantee a level of efficiency and good utilisation of public finances.

One of the issues in relation to the interaction between forestry activity and flood prevention is planting. The maintenance of the woodland grants scheme is therefore central to enabling landowners and land managers to continue an active programme of afforestation. You will notice as you go around this county that much of the landscape is changing because 40-year-old forests—well, forests that have been there for the entirety of my life—are now beginning to be felled.

**The Convener:** I am sorry, but I thought that you said that the forests were 40 years old. *[Laughter.]*

**John Swinney:** It is hard to imagine, convener, but I have been around longer than some of those forests. I know that that will stun you.

**The Convener:** Thank you for the correction.

**John Swinney:** However, as those forests will have been very significant resources for capturing water, we have to be very careful with the degree of appropriate harvesting that is being undertaken and to ensure that we are also afforesting. That is why the woodland grants scheme is so important and why we have maintained those resources; we want to enable more of the hill ground to retain more water and to prevent that water from reaching the flood plains and estuaries more quickly, which is what would happen if these woodland activities did not take place. There is a very fine balance to be struck in relation to the management of the issue.

**The Convener:** Thank you very much for answering the committee's questions today, cabinet secretary. Do you wish to make any other points before we close?

**John Swinney:** I have nothing to add, convener. Thank you.

**The Convener:** Thank you very much, and I also thank colleagues around the table.

As agreed earlier, we will now go into private session for the last item of business.

16:09

*Meeting continued in private until 16:12.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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